

18

PRESIDENT CLINTON'S FISCAL YEAR 1995 BUDGET PROPOSAL

Y 4. B 85/3: 103-23

President Clinton's Fiscal Year 199...

HEARING

BEFORE THE

COMMITTEE ON THE BUDGET

HOUSE OF REPRESENTATIVES

ONE HUNDRED THIRD CONGRESS

SECOND SESSION

FEBRUARY 25, 1994

Serial No. 103-23

Printed for the use of the Committee on the Budget



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PRESIDENT CLINTON'S FISCAL YEAR 1995 BUDGET PROPOSAL

FRIDAY, FEBRUARY 25, 1994

HOUSE OF REPRESENTATIVES,
COMMITTEE ON THE BUDGET,
Washington, DC.

The committee met, pursuant to call, at 9:35 a.m., Room 210, Cannon House Office Building, Hon. Martin Olav Sabo, Chairman, presiding.

Members present: Representatives Sabo, Gordon, Price, Mink, and Miller.

Chairman SABO. The committee will come to order.

And it is a privilege to have the distinguished gentleman from Virginia with us, who does an outstanding job and is now a colleague on the Appropriations Committee. Congressman Moran. Jim.

STATEMENT OF HON. JAMES P. MORAN, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF VIRGINIA

Mr. MORAN. Thank you very, very much, Mr. Chairman. Thank you for sticking around for the weekend to work on the 1995 budget when you could be home in your district.

I would like to address specifically the issue of the inequity in the COLA schedules for Federal civilian and military retirees and to ask for your support in addressing and correcting what we know to be an inequity in this year's budget.

As you know, the Omnibus Budget Reconciliation Act of 1993 contained a disparity in the COLA schedules for Federal civilian and military retirees. In 1994, the scheduled COLAs have been delayed from January to April for both military and Federal civilian retirees, but in 1995 we continue the delay for Federal civilian retirees, but then implement a second delay for military retirees.

Federal civilian retirees received their 1995 COLAs in April but military retirees will not receive their 1995 COLAs until October. This schedule continues in 1996, but in 1997 the COLA delay will end for Federal civilian retirees. They will get their COLA in January of 1997. Military retiree COLAs, however, will continue to be delayed until October in 1997 and in 1998.

COLAs don't make the annuitant wealthier over time. They don't increase the Federal annuity. I remember this was a concern of some Members during last year's budget debate. They pointed to statistics which show how large an annuity would become if an individual retired with a full pension at age 42 and lived until 72.

A COLA of 2.5 percent will increase a Federal annuity of \$30,000 to more than \$100,000 over a period of 30 years. But this will not increase the annuity in real dollars. If an individual were to retire with a pension of \$30,000 today, the automatic cost-of-living adjustments would only ensure that his post retirement income stays current over the remainder of his or her life and that their buying power neither grows nor diminishes.

The problem with delaying COLAs for Federal annuitants is that it does decrease the annuity and does decrease the recipient's buying power. Otherwise, we wouldn't have been able to score about \$3 billion in savings from the COLA delays. A policy which puts COLAs on different schedules for different groups of retirees does unfairly impact the losing group. Federal civilian retirees and military retirees are both federally funded retirement programs. We shouldn't discriminate against a single class of annuitants.

It has never been the policy of the budget committee to create separate classes of Federal annuitants. The fiscal year 1994 budget resolution did contain equal provisions for both Federal civilian and military retirees. The problem arose after the debate on the budget resolution and with the reconciliation. As you know, military and Federal personnel issues are handled by two different major committees. Armed Services has jurisdiction over the military retirees while the Post Office and Civil Service has jurisdiction over the Federal civilian retirees.

As you remember, the Budget Committee's recommendations were originally based on a proposal to limit civilian and military retirement COLAs to one-half the rate of inflation for retirees under the age of 62 up to a maximum COLA of \$400 for fiscal year 1994. This assumption generated much larger savings under the military retirement program than the civil service retirement program because there are more military retirees under age 62 than civilian. In 1992, for example, about 55 percent of military retirees were under 62. This compares to only about 15 percent of the civilian retirees.

Neither authorizing committee accepted the Budget Committee's recommendations. They decided that it would be better to delay the COLAs for all retirees rather than reduced COLAs for those under 62. They were, however, required to achieve the same savings. Because the savings required of the Armed Services Committee were much greater than those required of the Post Office Committee, and because the pool from which they could find offsets was smaller, the Armed Services Committee implemented the second delay for military retirees.

The different references may make the COLA discrepancy easier to explain. But it does not make it any more fair. An inequity does exist and it is one that must be addressed. I have introduced legislation that would correct this discrepancy by putting the COLAs for Federal civilian and military retirees on the same schedule. This would be done by rescinding the second COLA delay to military retirees. This bill currently has the support of 130 bipartisan cosponsors, many of whom sit on the Armed Services Committee and some of whom are members of the Budget Committee.

The bill has also been introduced in the Senate by Senators Warner and Sarbanes. I also have with me a letter of support co-signed

by—I think we have 55 signatures at latest count. I have got several pages of signatures of House Members here that I will submit for the record, Mr. Chairman.

The number of cosponsors, companion bills and letters of support, however, don't mean a thing if the Budget Committee does not address the inequity and increase the funds available for military retiree COLAs. The Department of Defense budget falls under Function 050 for almost every DOD program, except military retirement. This falls under Function 602, which also funds Federal retirement, Federal disability, and Federal workmen's compensation.

The two functions are not compatible. We can't cut the C-17 program to pay for military retiree COLAs because the account which funds these COLAs within DOD is so small we can't identify any offsets within the account to offset an increase in military retiree COLAs.

That is why we need the help of your committee. The Budget Committee could increase the funding for this account in the fiscal year 1995 budget resolution and could identify other savings to help us ensure that all Federal annuitants receive their COLAs on the same schedule.

I know this is an issue of importance to the committee. I hope this is something we can work out before the COLA inequity takes effect in 1995. And I very much appreciate your being willing to hear this testimony and I hope to address this issue, and I welcome Mr. Gordon to the committee as well, and if you have any questions, I would be more than happy to address them. Thank you.

[The prepared statement of Hon. James P. Moran follows:]

PREPARED STATEMENT OF HON. JAMES P. MORAN, A REPRESENTATIVE IN CONGRESS
FROM THE STATE OF VIRGINIA

Mr. Chairman: I appreciate your giving me the opportunity to testify here today. Specifically, I wanted to speak about the inequity in the COLA schedules for federal civilian and military retirees and to ask for your support in addressing, and correcting, the inequity this year.

As you know, the Omnibus Budget Reconciliation Act of 1993 contained a disparity in the COLA schedules for federal civilian and military retirees. In 1994, the scheduled COLAs have been delayed from January to April for both military and federal civilian retirees.

In 1995, however, we continue the delay for federal civilian retirees, but then implement a second delay for military retirees. Federal civilian retirees will receive their 1995 COLAs in April, but military retirees will not receive their 1995 COLAs until October. This schedule continues in 1996, but in 1997 the COLA delay will end for federal civilian retirees, they will get their COLA in January of 1997. Military retiree COLAs, however, will continue to be delayed until October in 1997 and 1998.

COLAs do not make the annuitant wealthier over time. They do not increase the federal annuity. I remember this was a concern of some members during last year's budget debate. They pointed to statistics which show how large an annuity would become if an individual retired with a full pension at age 42 and lived until 72.

It is true that a COLA of 2.5% will increase a federal annuity of \$30,000 to more than \$100,000 over a period of 30 years. But this will not increase the COLA in "real dollars." If an individual were to retire with a pension of \$30,000 today, the automatic cost of living adjustments would only ensure that his post-retirement income stays current over the remainder of his life and that his buying power neither grows nor diminishes.

The problem with delaying COLAs for federal annuitants is that it does decrease the annuity and does decrease the recipient's buying power. Otherwise, we wouldn't have been able to score about \$3 billion in savings from the COLA delays. A policy which puts COLAs on different schedules for different groups of retirees does unfairly impact the losing group. Federal civilian retirees and military retirees are

both federally funded retirement programs. We should not discriminate against a single class of annuitants.

It has never been the policy of your Committee to create separate classes of federal annuitants. The FY94 Budget Resolution did contain equal provisions for federal civilian and military retirees. The problem arose after the debate on the Budget Resolution and with the Reconciliation. As you know, military and federal personnel issues are handled by two different major Committees. Armed Services has jurisdiction over the military retirees while the Post Office and Civil Service Committee has jurisdiction over the federal civilian retirees.

As you remember, the Budget Committee's recommendations were originally based on a proposal to limit civilian and military retirement COLAs to one-half the rate of inflation for retirees under age 62 up to a maximum COLA of \$400 for FY94. This assumption generated much larger savings under the military retirement program than the civil service retirement program because there are more military retirees under age 62 than civilian. In 1992, for example, about 55% of military retirees were under 62. This compares to only about 15% of the civilian retirees.

Neither authorizing Committee accepted the Budget Committee's recommendations. They decided that it would be better to delay the COLAs for all retirees rather than reduce the COLAs for those under 62. They were, however, required to achieve the same savings. Because the savings required of the Armed Services Committee were much greater than those required of the Post Office Committee, and because the pool from which they could find offsets was much smaller, the Armed Services Committee implemented the second delay for military retirees.

The different references may make the COLA discrepancy easier to explain, but it does not make it any more fair. An inequity does exist and it is one that must be addressed. I have introduced legislation that would correct this discrepancy by putting the COLAS for federal civilian and military retirees on the same schedule. This would be done by rescinding the second COLA delay for military retirees. This bill currently has the support of 130 bipartisan cosponsors, many of whom sit on the Armed Services Committee and some of whom are members of this Committee. The bill also has been introduced in the Senate by Senators Warner and Sarbanes. I also have with me a letter of support co-signed by 50 of my colleagues.

The number of cosponsors, companion bills, and letters of support, however, do not mean a thing if the Budget Committee does not address this inequity and increase the funds available for military retiree COLAs. The Department of Defense budget falls under Function 050 for almost every DOD program except military retirement. This program falls under Function 602 which also funds federal retirement, federal disability, and federal workmen's compensation.

The two functions are not compatible. We can't cut the C-17 program, for example, to pay for military retiree COLAs and because the account which funds these COLAs within the Department of Defense Budget is so small, we can't identify any offsets within the account to offset an increase in military retiree COLAs.

That is why we need your help. The Budget Committee could increase the funding for this account in the FY95 Budget Resolution and could identify other savings to help us ensure that all federal annuitants receive their COLAs on the same schedule. I know this is an issue of importance to the Committee and I hope this is something we can work out before the COLA inequity takes effect in 1995.

Thank you again for giving me the opportunity to testify today.

Chairman SABO. Thank you.

I notice Mr. Goss is here whose testimony is about the same. And let me just indicate that your history is accurate in terms of what was in the budget resolution conference committee last year, and I guess I can comment this to both of you, and that is, our assumption in arriving at a number, and we always deal with assumptions at arriving at our numbers, was the COLA until age 62 to be fully recouped or a full readjustment at age 62. We allocate those savings to the various authorizing committees who have the responsibility of meeting the number, not necessarily following our assumption. And that difference occurred because they chose for a variety of reasons to follow a different track at getting their numbers so the assumptions that we used were the same.

Those committees retain the options of changing those formulas in a budget neutral fashion and so I still—my own judgment is that

our assumption was a good one and a fair one. And, however, that was not the judgment of other people as they worked to achieve those numbers.

Mr. MORAN. Well, we were hoping that you might build in enough flexibility in this budget, Martin, that we could work that out.

Chairman SABO. Our expectations are that we do not have a reconciliation bill this year for a variety of reasons, which means you need to pursue it with those committees in a manner that meets the pay-as-you-go provisions of the Budget Act.

My judgment still is that the basic direction we went was the correct one. Other people need to be convinced of that.

Mr. MORAN. Yes. I think it is an important point to remember that 55 percent, the majority of military retirees, are under the age of 62. In pursuing that recommendation, I think that is an important consideration to bear in mind. I am going to submit this letter.

Chairman SABO. We will put the entire letter in the record.

Mr. MORAN. Yes. Thank you, Mr. Chairman.

Chairman SABO. Thank you for your testimony.

Mr. GORDON. Thank you for your testimony.

[The information follows:]

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APPROPRIATIONS

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AND JUDICIARY

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VICE CHAIRMAN

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House of Representatives
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FEDERAL GOVERNMENT
SERVICE TASK FORCE
CO-CHAIRMAN

February 14, 1994

The Honorable Martin Sabo
Chairman
House Budget Committee
214 House Annex 1
Washington, DC 20515

Dear Chairman Sabo:

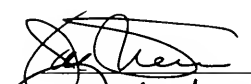

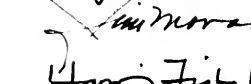
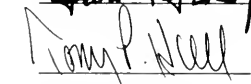

We are writing to request your support in correcting a disparity in the schedule of future Cost of Living Adjustments (COLAs) for federal civilian and military retirees in the fiscal year 1995 Budget Resolution.



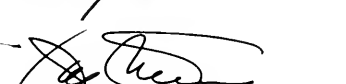
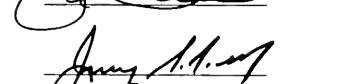

As you know, the Omnibus Reconciliation Act of 1993, places federal civilian and military retiree COLAs on different schedules. Federal civilian retirees will receive COLAs in April of 1995 and 1996, but military retirees will not receive COLAs until October of 1995, 1996, 1997, and 1998. While annuitants generally accepted the 1994 delay, many military retirees consider the additional 6 month delay in 1995 to be simply unfair. Federal civilian and military retirees are under the same inflationary pressures and equally need the Cost of Living increase to keep their income current with inflation.

We strongly believe this is an issue that should be addressed in your FY1995 Budget Resolution. We request that the Committee's budget recommendations include provisions to ensure that the uniformed services retiree COLAs take effect in April of 1995. This is an issue of fairness to the more than 1.5 million military retirees across the country.

Thank you for your consideration of this request. We look forward to working with you to resolve this issue.

Sincerely,

Mike Biluakis
Sen Biluakis

Marcy Kaptan
Ben Baker

Jim McDermott
Tom Barlow

Bud Cramer
Mac Collins

Corin Brown

Van Hamburg

J. Foxton

Albert B. Ellis

Garrett

Ken Mahley

Arthur Ravenna

Don Johnson

Mike Kopetski

Van Snaffer

Bob Filner

Don Bailey
Ken McMill

Donna Diers

Jim Blancia

Leslie Byrne

Marion Cantwell

Jack Kingston

John Bente

Jim Riley

John Thomas

Paul Lip

William L. Fowler

Frank Tejeda

Ben Hughes

George Hochbrecher

Bob Goodlatte

Bill Lind

Billy Long

Chairman SABO. Welcome, the gentleman from Florida, Mr. Goss.

Mr. GOSS. Thank you, Mr. Chairman.

Chairman SABO. We will put your—Jim, did you give me your entire statement or do you want it.

Mr. MORAN. I will give it to the reporter.

Chairman SABO. Mr. Goss, we will put your entire statement in the record.

STATEMENT OF HON. PORTER J. GOSS, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF FLORIDA

Mr. GOSS. Thank you, Mr. Chairman. Mr. Chairman, thank you very much. I presume we are under the 5-minute rule, more or less.

Chairman SABO. Sort of.

Mr. GOSS. Thank you. I am sorry, I apologize for walking in late. I want to make sure I follow your procedures.

Chairman SABO. Bart says it is the good judgment rule.

Mr. GOSS. I will try to make it shorter.

Mr. Chairman, thank you for accepting my statement for the record and the material that goes with it. Actually, a very supportive and important part of that is an appendix that describes in detail each of the items I am talking about, the source of it and so forth, and will be included with that material, if it is acceptable to you. It really is the guts and answers all the questions about the particulars of what we are trying to accomplish.

I would like to start off by saying that I spent the last couple of days talking about the budget process on the Rules Committee. Mr. Gordon is well aware that our subcommittee is dealing with the whole question of the commentary that went on in joint reform proposals and we are discussing that and we have had, I thought, some very useful commentary about how to make the Budget Committee and the budget process more meaningful and more consistent than it seems to be to some of us now.

At the same time, I am serving on the Entitlements Commission that the White House has put together. I think, frankly, we are into the ways and means area more than the budget area there, but it is the same problem. We are dealing with something that we have got to face.

We have got the balanced budget amendment coming up, and what I want to bring to your attention this morning really goes to all of those areas and it starts at the other side. It starts at the cutting side and it starts at looking at a series of things that the government is buying and paying for now and wondering whether they are still current, whether they are still on target, whether they are still a high enough priority to justify the expense of the taxpayers' dollars relative to our needs and desires and services that have to be delivered.

The essence of it is I have got 76 proposed cuts which total some \$284 billion of savings, not counting interest, over the next 5 years. Those figures are obviously subject to adjustment. Some are CBO, some are not. They come from a wide variety of sources, from the Grace Commission, the Concord Coalition, the Heritage Founda-

tion, and a whole bunch of others, all of which I say are specifically identified project by project as we go along.

I did a similar thing last year. We put in \$190 billion worth of savings and 50 cuts and actually some of those were pulled out. The mohair and wool, honey, the rocket motor, some other things like that that we talked about and actually action was taken on. This year I am bringing to your attention for your consideration by the committee, if you so choose, those remaining of the 50 that weren't acted on last year plus some others totaling now 76. Adding up, as I say, to \$284 billion plus interest over 5 years.

There are a couple of points I would like to start with. The first is obviously representing southwest Florida, which has an awful lot of senior citizens, I am very concerned that before we start talking to people about entitlements and start creating an anxiety level about entitlements spending that we make sure that we can look people right in the eye and say we have done our best to chop waste and redundancy and duplication and so forth out of the stream. I want to continue to work on that process and that is what is motivating me, other than the fact that I think it is unconscionable that every tax dollar doesn't get the maximum bang for the buck that we spend.

Mr. GORDON. Porter, do you have that list with you?

Mr. GOSS. Yes. I am sorry, I assumed you all had the list.

Chairman SABO. No, we don't.

Mr. GOSS. We gave your staff copies but here is a copy of the list and I apologize for that. I was informed that every member had a copy. If you need more, we will get them.

Having said that about the entitlement questions, we go on and talk about some other specifics in here. Not everybody will agree on what is redundant and what is duplicative and what has served its purpose, what could be better done by the private sector, what some people would view as pork first, last, and always. These are all things that are subject to judgment and that is why I am introducing them in this, what I think very benign, friendly way is just for consideration and I hope some will be picked up if we give them attention.

I want to point out that some of these affect my State and my district very much. I am not in the process here of trying to high-jack some other colleague's pig in any way, shape, or form. There are some things here I don't like putting on this list, but when you look at the overall affordability and the competition for the dollar, it looks to me like some of these just don't make the test of a public health safety or welfare test relative to the affordability problem we have now.

And I say the affordability problem, I don't think there is anybody in America who doesn't understand that we have a national debt, maybe people don't understand that it adds up to \$18,000 for every man, woman, and child, but it is a significant number and that is why I think the hue and cry about a budget balancing amendment is before us, so this process aims at taking these savings and putting them into deficit reduction, and I want to make that point very clear because the definition of savings sometimes eludes the people in America as we use the word in Washington.

I am not talking about savings the way we used them in ASRAM where it cost us money to save us money and we just shifted it to another program. And I am not talking about savings against next year's budget figures. I am talking about real savings, the way mom and dad have to do it with a budget at home. And so what we are trying to do is accomplish a significant amount of savings by bringing certain projects to people's attention and hoping that those savings can be real and used to reduce the national debt, which is reaching staggering proportions and seeming to get worse no matter what we do about it.

That basically is it, Mr. Chairman. I will be happy to respond to any of the 76 projects. I have tried to pick some from all of the areas I have talked about. Talking about low target prices to subsidize tobacco crops is something that has been talked about and hit in one cut already taken. We have gone a little further on that.

Eliminating market promotion programs. Again, there was a hit taken on that last year. We feel there is another \$500 million to be taken out of that. Something like repealing the Davis-Bacon Act is obviously politically very sensitive. I certainly understand that. But when you look at it in the cold hard dawn of figures, and that is all I am doing here, I am not looking at the politics, I am looking at the figures where there is an area where it seems we no longer need to be doing what we were doing in 1931 and save an additional amount.

Allowing private sector investment in the space shuttle. Saying that coming from Florida is a very significant comment. Eliminating the Farmer's Home Administration, which is a duplication with the Small Business Administration, is putting the turf wars back in perspective and saving some money on duplications. Twenty-six percent of what the Farmer's Home loans are about are really somebody else's business, I understand.

Eliminating the Rural Electric Administration. That is not easy for me to say. My community is 100 percent served by the REA and my lights go on and off if I pay my co-op bill and if I don't pay my co-op bill, so again this goes right smack into my own house. But I don't think you can justify keeping that going.

Terminating the highway demonstration projects. Mr. Gordon will certainly remember well the testimony we had last year and the difficulties between the authorizers and the appropriators. I am sure everybody will remember that.

These are the kinds of things that in all the proper spirit, and again without any partisanship whatsoever, any geographical sophistication, or any other criteria except is this an appropriate expenditure of the Federal Government that now measures up relative to our affordability today. That will basically conclude my remarks, Mr. Chairman. I appreciate it.

[The prepared statement of Hon. Porter J. Goss follows:]

PREPARED STATEMENT OF HON. PORTER J. GOSS, A REPRESENTATIVE IN CONGRESS
FROM THE STATE OF FLORIDA

Mr. Chairman, thank you for giving me the opportunity to appear before you today. Simply put, I would like to present your committee with a list of 76 spending cut suggestions which could save an estimated \$284 billion over five years. Given the current budget crisis, all of these savings should be applied to reducing the deficit.

Last year, I introduced legislation which contained 50 cuts (for an estimated \$190 billion in savings); while some of these suggestions were debated and enacted, many were not. I've included some 40 of the original "thirty-fifty" here, and added over 30 additional suggestions.

The point of this effort is to highlight the hundreds of billions of dollars in potential savings that still exists, despite statements from some that we have "cut spending to the bone." You will notice that none of the cuts come from entitlements such as Social Security and Medicare—I believe that we should examine cutting waste and redundancy in the Federal Government before tinkering with programs that effect those living on fixed incomes.

These suggestions are drawn from a host of independent sources, including the Congressional Budget Office, the Grace Commission, and the National Performance Review. I have made every effort in putting together this list to be as accurate as possible and to use the most conservative numbers available—but this is an evolving proposal, and some aspects are subject to change.

In putting these suggestions on the table, I am not demanding that each and every one be made—but they should be seriously considered. Clearly, some are more controversial than others, but it's time to debate real spending cuts and real fiscal reform.

Finally, I will be happy to make available to the committee the details of each of these suggestions so they are better able to consider the specifics.

THRIFTY FIFTY PLUS:
SEVENTY-SIX SUGGESTIONS

	savings (\$ millions/5 yr.)	Description
1	300	Cancel the National Aerospace Plane (NASP)
2	8,850	Continue partial civilian hiring freeze at DOD
3	400	Eliminate below-cost timber sales from National Forests
4	11,000	Lower target prices for subsidized crops 3% annually
5	500	Eliminate the Market Promotion Program
6	1,910	End the Federal Crop Insurance Program and replace with standing authority for disaster assistance
7	8,850	Limit federal highway spending to the amount brought in by, motor vehicle fuel taxes
8	6,300	Repeal the Davis-Bacon Act
9	660	Reduce Commodity Credit Corporation subsidies to those with off-farm incomes over \$100,000
10	1,167	Terminate most federal commissions
11	1,900	Fully implement H.R. 2452 (102nd) to provide additional energy conservation measures for federal agencies
12	27,000	Enact H.R. 1620 (103rd) to prohibit direct federal benefits and unemployment benefits to illegal aliens
13	635	Eliminate the Tobacco Price-Support Program
14	53	Consolidate the Bureau of Indian Affairs
15	0.3	Close 20 under-utilized black lung offices
16	1,522	Allow private sector investment in the space shuttle
17	913	Eliminate Farmer's Home Admin. (FmHA) duplication with the Small Business Admin. (SBA)
18	3,000	Eliminate the Rural Electric Administration
19	4,400	Terminate all highway "demonstration projects"
20	858	Lower the travel budgets of all non-postal, civilian agencies by 15%
21	64,000	Lower by 10% per annum the projected growth rate of non-postal, civilian agency's overhead (excluding travel)
22	12,700	Abolish Cotton Price Support and Loan Programs
23	13,125	Cut the Foreign Aid budget (150 Account) by 15% and make all earmarks in that account subject to a 2/3 vote for passage
24	70	Phase out the Foreign Agricultural Service Cooperation funding
25	530	Eliminate the Appalachian Regional Commission
26	118	Roll back Congressional pay raise to \$89,500
27	692	Sell the National Helium Reserves to a joint venture comprised of current employees and other private investors
28	167	Reduce the "Franking" allocation to Members of Congress by 50%
29	2,600	Cut National Endowment for the Arts by 50%
30	883	Cut funding for the Corporation for Public Broadcasting by 50%
31	2,660	Phase out subsidies for AMTRAK

THRIFTY FIFTY PLUS:—Continued
SEVENTY-SIX SUGGESTIONS

	savings (\$ millions/5 yr.)	Description
32	660	Phase out ACTION (umbrella organization for domestic volunteer activities) as a tax supported program
33	4,200	Facilitate contracting out and privatization of military commissaries
34	188	Terminate the Interstate Commerce Commission
35	10	Phase out U.S. Fire Administration
36	580	End funding for all non-energy Tennessee Valley Authority (TVA) activities
37	195	Eliminate Essential Air Services subsidies
38	140	Eliminate Consumer Homemaking grants
39	1.1	Privatize the House and Senate Gymnasiums
40	2,844	Reduce the Legislative Branch Appropriation by 20%
41	284	Reduce the Executive Office of the President Appropriation by 20%
42	140	Close the Bureau of Mines and merge its data gathering activities with other Interior Department research agencies
43	2,000	Raise the level and schedule of the Power Marketing Administration's debt repayment
44	300	Eliminate the Clean Coal Program
45	1 000	Reduce the fill rate for the Strategic Petroleum Reserve
46	7,400	End all new Bureau of Water Reclamation water projects
47	5,000	Eliminate the Dairy Subsidy Program
48	3,950	Merge the Agricultural Research Service, the Cooperative State Research Service, and the Agricultural Extension Service; cut funding by 50%
49	2,000	Privatize the Government National Mortgage Association (Ginnie Mae)
50	1,200	Eliminate the Economic Development Administration
51	3,400	Eliminate non-targeted vocational state funding
52	6,300	Consolidate the administrative costs of the AFDC, Food Stamps, and Medicaid programs
53	610	Replace new public housing construction with vouchers
54	5,400	Increase Medicare safeguard funding by \$540 million over 5 years (net savings)
55	1,900	Eliminate the Legal Services Corporation
56	2,000	End postal subsidies to not-for-profit organizations (excluding blind and handicapped individuals)
57	1,100	Eliminate HUD special-purpose grants
58	540	Reform vacation and overtime for the Senior Executive Service
59	14,740	Eliminate DOD payments for indirect Research & Development; substitute direct R&D
60	2,550	Reduce DOE energy technology spending
61	1,400	Scale back Rural Rental Housing Assistance program
62	6,250	Reduce mass transit grants; eliminate operating subsidies
63	1,380	Eliminate Rural Development Association loans and guarantees
64	3,850	Eliminate "Impact Aid" to school districts with military bases
65	1,000	Consolidate Social Services programs
66	4,900	Reduce NIH funding by 10%, concentrating on overhead
67	5,700	Freeze the number of rental assistance commitments
68	5,150	Scale back Low Income Home Energy Assistance grants
69	900	Service Contract Act reform
70	1,000	Reduce overhead in federally-sponsored university research
71	1,500	Strengthen and restructure NASA (NPR proposal)
72	250	Eliminate redundant polar satellite programs
73	1,300	Streamline USDA field offices
74	144	Streamline HUD
75	580	Reform Prison construction
76	1,002	Eliminate Travel, Tourism and Export Promotion Administration

Chairman SABO. I thank the gentleman for his testimony.

In looking through these, I see some that are addressed in some version, a modified version in the President's program. Others are ones where significant number of Members, I think both caucuses, would describe the program with different adjectives than what you describe them, but we appreciate your input. We appreciate the effort you make at looking at how we run government because I

think all of us agree that we need to have the maximum efficiency for the dollars we spend. Bart.

Mr. GOSS. Thank you, Mr. Chairman.

Mr. GORDON. Porter, I also appreciate this effort. To me, there are two concerns about deficit reduction. One is getting the deficit down. Of course, the other is more than just the numbers, it is doing away with some programs that don't really work.

You know there are areas maybe where we ought to increase funding or leave it the same, but that doesn't mean we ought not to cut out some bad programs. You can argue about the defense budget, should it be increased or decreased, but certainly it might be more fine-tuned. So I think you have made us a good list of cuts, many of which I have supported, and I have a similar type of thing.

I just briefly went over it, and I don't want to pick it apart, but again, you don't put this as definitive but rather as some thing to look over. Number 13, eliminate the tobacco price support program. I think that has been done. To the best of my knowledge, there is not a dollar of public money that goes into any kind of a tobacco program now. I say that not to be critical but rather just for your information in case you might want to revise that. Maybe I am wrong.

Mr. GOSS. My understanding, and again this one came from the Citizens Against Government Waste and the National Taxpayers Union, and there was legislation on this in the 102d, that this is one of the smaller government subsidy programs. I agree with what you have said that action has been taken on this. This is additional action. The primary purpose, to limit the amount of cultivated land but administrative costs run into the millions.

Mr. GORDON. But now I think last year we took action, or maybe it is in the budget already this year, that basically the companies that pay into the program are paying for that. Again, I am not trying to discredit your overall program. I am just saying I don't believe this is accurate and you might want to review that.

Mr. GOSS. That would be welcome news if in fact we have done it and we would be delighted to supply this in the list of projects where action has been taken and dollars have been saved. I will further look at that.

Mr. GORDON. I think if you would look at that I think you might also—you are looking at 5 year figures, too, okay.

Mr. GOSS. Generally we are, yes, sir.

Mr. GORDON. Just one quick question, if I might, on your number 12. I am not familiar with 1620. I think all of us are interested in trying to do away with public dollars going to illegal aliens. The question is how do you do that? Could you maybe give a quick overview of what 1620 does?

Mr. GOSS. This particular legislation is very important to the State of Florida, as you know. We are dealing with a couple of hundred thousand or more illegal aliens and we are paying the costs and the Governor is so distressed that we, in fact, are suing—I will point out that the Governor isn't the same party as the President—and is suing the administration to get back costs. This is a very significant amount of dollars. I think the estimates we have are \$57 billion over 5 years.

And H.R. 1620, which I will get you a copy of, I think that is Gallegly's bill, if I am not—Dreier's bill, I am sorry. Gallegly was the older bill that reduced \$365 million over 5 years. Dreier's was scored at \$5 billion annually for 5 years. And I will get you copies of that legislation.

The long and short of it is this is not an easy task to do. We understand that. We are not going to turn away people from the emergency room who have acute medical needs and have no place to go. On the other hand, we have got to start dealing with the type of problem that allows for 60 some percent of all the childbirth in the Los Angeles public hospital to be from illegal aliens who are there for the specific purpose because the hospital is there and it is just a giant magnet.

Mr. GORDON. I agree. I am just looking for a good idea. I hope you have got one.

Mr. GOSS. We have got several. We think they will work and they are user friendly and they are not punitive. They are not—they don't go back and attack people who are operating under today's rules. They basically put people on notice that those rules are changing and hopefully remove some of the magnet appeal and draw that is causing some of this problem as well.

Mr. GORDON. Number 73, I think you can put that on your list; hopefully it has been and is being done, and maybe a thank you note should go to Mike Espy.

Mr. GOSS. I would be delighted. That is the good part of this process. You deal with these things and where you see accomplishment has been made and we haven't gotten the word yet. That is very welcome news and we certainly will do that. I thank you very much for that. This is meant to be that kind of a list, and I am delighted to have your attention and participation in pointing out how to make it most accurate.

Mr. GORDON. Thank you.

Chairman SABO. Mr. Miller.

Mr. MILLER. Mr. Goss.

Mr. GOSS. Good morning, Mr. Miller.

Mr. MILLER. Good morning. One comment. In looking through the list, you keep using words like: Cancel, eliminate, repeal, close, terminate, abolish, sell, phase out and end. I like those words. And that is what we should be doing, is keep pushing to eliminate, cancel close, terminate, abolish, sell. That is what we need, to get out of programs. I like the reduction of them, but better yet to get rid of them entirely.

You eliminate the price support program. Actually, on the first page alone, of the first 19, 11 you want to do away with entirely. I commend that part of the list especially.

Mr. GOSS. Thank you very much, Mr. Miller. We started with the objective of savings.

Mr. MILLER. Thank you.

Mr. GOSS. Thank you, Mr. Chairman.

Chairman SABO. Mr. Hutchinson and Mr. Grams, I understand want to testify together. Am I accurate?

Welcome. We will put your entire statements in the record. I am not sure if we have copies. I guess we are getting them now.

**STATEMENT OF HON. ROD GRAMS, A REPRESENTATIVE IN
CONGRESS FROM THE STATE OF MINNESOTA**

Mr. GRAMS. Good morning, and again, thank you very much, Mr. Chairman, for this opportunity to testify before the House Budget Committee on the fiscal year 1995 budget and, more specifically, on the "families first" alternative that my colleague from Arkansas, Tim Hutchinson, and I have introduced.

When we introduced this legislation alternative, Congress was in the midst of approving the largest tax increase in American history, and while we may not see the results of this tax increase for several years, history has shown that tax increases slow down economic growth, do not increase net revenues and result in higher and not lower deficits.

If the truth be told, the burden of tax increases again really falls upon those who are least able to pay for them and that is middle class American families.

Today, most American families pay more in Federal taxes than they spend for food, clothing, transportation, insurance, and recreation combined. During the years after World War II, Federal income taxes and payroll taxes took only 2 percent of the income of a median family of four. That Federal burden has now since increased to 24 percent.

While American families have been subjected to increasingly higher taxes over the years, there has not been a corresponding increase in the personal exemption for families with children. According to the Urban Institute, if the value of the personal exemption had been adjusted for both inflation and real growth in income since 1948, it would risen to \$8,652 in 1993. Instead, the current deduction stands at \$2,350.

The amount of time that a family has to work to pay their extra tax burden has increased, while the amount of time the American family spend together has declined by 40 percent since 1965. Although there are several reasons for this, perhaps the most alarming is that middle class American families today have been forced to take on additional work hours just to meet their tax obligations. For two-parent families, it has meant that both spouses must work longer hours or that a single parent must get a second or even a third job.

In fact, for families where both parents work, the entire second income goes just to pay taxes. And for some single parents, overtime and a second job are required just to meet the tax burden.

The result is that families today have less time and less money to do the things only families can do best and that is help educate their kids, teach them values, keep them off drugs and out of trouble, provide basic child and health care, assist older parent with long-term care, and also establish a healthy and supportive environment at home for the kids in which to grow.

For these reasons, the centerpiece and first component of our families first budget is a \$500 per child tax credit for every working American family. A \$500 per child tax credit means returning \$25 billion each year to families across America and \$500 million to families in my own State of Minnesota and that of the Chairman of this committee, Mr. Sabo.

I would ask the Chairman's consent to have the congressional district tax credit breakdown entered into the record as well, and that is this document that we have here. I would like to have that entered in its entirety.

Chairman SABO. It will be in the record.

Mr. GRAMS. Thank you.

Mere statistics, however, cannot adequately describe the real benefits of a \$500 per child tax credit. A family tax credit empowers families and gives them more control over their household finances, the type of health insurance they receive, the type of schools their children attend. It means less reliance on public social programs and more power for the first and most effective form of government and that is the family.

Family tax relief is also a progressive solution, as this chart, Mr. Chairman, indicates that 78 percent of the total dollars returned by the families first tax credit will go to families who make less than \$60,000 a year. And most of this money will go to families at the lower income scale. If we truly want to help low-income families, the families first tax credit is the best solution.

In addition, the American people in all demographic groups overwhelmingly support family tax relief. As the recent Fabrizio/McLaughlin poll shows, two-thirds of all Americans support a \$500 per child tax credit, and that includes 68 percent of Democrats and Republicans; 65 percent of independents polled; 73 percent of people with incomes between \$20,000 to \$40,000; 76 percent of people between the ages of 18 to 25; 76 percent of people between the ages of 26 and 40; and 71 percent of those calling themselves liberal. All favor some form of child family tax credit.

As these numbers show, family tax relief has the overwhelming across-the-board support of the American people and that should not be surprising given the fact that families are robbed of their choice because of the heavy tax burden that is imposed on them. Families first is a way of easing the burden and giving families, as President Clinton would say, their fair share.

The second component of our families first alternative is \$38 billion in jobs growth incentives, including a reduction in the capital gains tax rate and indexing for inflation, a neutral cost recovery plan for capital investments, and an expansion of individual retirement accounts into an IRA-plus plan. These incentives will improve economic growth and private sector job creation, estimated to add an additional 2.5 million jobs over the next 5 years.

Our plan also includes a benefit for working senior citizens by repealing the Social Security earnings test, which limits the amount of money a senior citizen can earn before jeopardizing their Social Security income. Placing disincentives on those who want or need to work is both unfair, unwise, and our budget corrects that problem.

Now the third and final component of our budget is deficit reduction.

As every member of this committee knows, reducing the budget deficit and our \$4.5 trillion national debt must remain at the top of Congress' "to do" list. Until our fiscal house is in order, every taxpayer faces the threat of higher taxes, every recipient of a Federal program is in danger of losing benefits, and every Member of

Congress runs the risk of being fired by the voters for mismanaging our budget accounts.

Our budget addresses the deficit problem by placing a 2 percent across-the-board cap on the growth of Federal spending. This cap would produce enough savings to pay for the bill's tax relief and reduce the budget deficit by nearly two-thirds within 5 years. And if this cap were extended, the budget would be balanced within 7 years and would produce a \$104 billion surplus by the fiscal year 2003, and it would give us the ability to actually begin repaying that \$4.5 trillion debt.

Our bill creates a legislative deficit reduction commission and an expedited procedure for the budget process, which my colleague, Tim Hutchinson, will describe in greater detail. Now, if Congress fails to meet the 2 percent requirement, the cap would be enforced by an across-the-board sequester, excluding Social Security.

Now, while some may be reluctant to take such a major step in cutting spending, it is important to remember that this plan, unlike other proposals, would guarantee a tangible benefit for families in exchange for a more responsible government. Each program affected by the 2 percent cap would translate into more money for families, as well as deficit reduction. The families first plan would set a positive example for our kids both now and in the future: Family tax relief for today and deficit reduction for tomorrow but action must be taken now.

This year's budget debate is about more than just numbers. It is a debate over whether we will empower families to control their own lives or depend on the government for more and more of their support, whether they will make it easier for employers to create jobs or force them through higher taxes to lay off more workers, whether we will invest in our future and that of our children in families or invest in the Federal Government.

The choice to me is simple, Mr. Chairman: Families are the center of our society and none of the social problems we face today will be corrected until we put families first. Families first is not a Republican or a Democratic idea, not a liberal or a conservative idea, it is just a good idea. A progressive pro-family proposal for the 1990's and one that we believe must be enacted this year.

I want to thank you, Mr. Chairman, and I now yield to my colleague, Tim Hutchinson. Tim.

[The prepared statement of Hon. Rod Grams follows:]

PREPARED STATEMENT OF HON. ROD GRAMS, A REPRESENTATIVE IN CONGRESS FROM
THE STATE OF MINNESOTA

Thank you, Mr. Chairman, for this opportunity to testify before the House Budget Committee on the fiscal year 1995 budget, and more specifically on the "Families First" alternative my colleague from Arkansas, Tim Hutchinson and I have introduced.

When we introduced this legislative alternative, Congress was in the midst of approving the largest tax increase in American history. And while we may not see the results of this tax increase for several years, history shows that tax increases slow down economic growth, do not increase net revenues, and result in higher—not lower—deficits.

If the truth be told, the burden of tax increases generally falls upon those who are least able to pay for them: middle-class American families.

Today, most American families pay more in Federal taxes than they spend for food, clothing, transportation, insurance and recreation *combined*. During the years after World War II, Federal income taxes and payroll taxes took only 2 percent of

the income of a median family of four; that Federal burden has since increased to 24 percent.

While American families have been subjected to increasingly higher taxes over the years, there has not been a corresponding increase in the personal exemption for families with children. According to the urban institute, if the value of the personal exemption had been adjusted for both inflation and real growth in income since 1948, it would have risen to \$8,652 in 1993. Instead, the current deduction stands at \$2,350.

The amount of time a family has to work to pay their tax burden has increased, while the amount of time American families spend together has decreased by 40% since 1965. Although there are several reasons for this, perhaps the most alarming is that middle class families today have been forced to take on additional work hours just to meet their tax obligations. For two-parent families it's meant that both spouses must work or work longer hours, or that a single parent must get a second or third job.

In fact, for families where both parents work, the entire second income goes just to pay taxes. And for some single-parents, overtime and a second job are required just to meet the tax burden.

The result is that families today have less time—and less money—to do the things only families can do best: help educate their kids and teach them values, keep them off drugs and out of trouble, provide basic child and health care, assist older parents with long term care, and establish a healthy and supportive environment at home for kids to grow.

For these reasons, the centerpiece and first component of our "Families First" budget is a \$500 per child tax credit for every working American family. A \$500 per child tax credit means returning \$25 billion each year to families across America and \$500 million to families in my home state and that of the Chairman of this committee.

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As these numbers show, family tax relief has the overwhelming, across-the-board support of the American people. And that should not be surprising given the fact families are being robbed of their choices because of the heavy tax burden imposed on them. "Families First" is a way of easing the burden and giving families, as President Clinton would say, their fair share.

The second component of our "Families First" alternative is \$38 billion in jobs growth incentives, including a reduction in the capital gains tax rate and indexing for inflation, a neutral cost recovery plan for capital investments and an expansion of individual retirement accounts into an "IRA-plus plan." These incentives will improve economic growth and private sector jobs creation—estimated to add an additional 2.5 million jobs over the next five years.

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of Congress runs the risk of being fired by the voters, for mismanaging our budget accounts.

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While some may be reluctant to take such a major step in cutting spending, it is important to remember that this plan, unlike other proposals, would guarantee a tangible benefit for families in exchange for a more responsible government. Each program affected by the two percent cap would translate into more money for families—as well as deficit reduction. The "Families First" plan would set a positive example for our kids both now and in the future: family tax relief for today and deficit reduction for tomorrow. But action must be taken now.

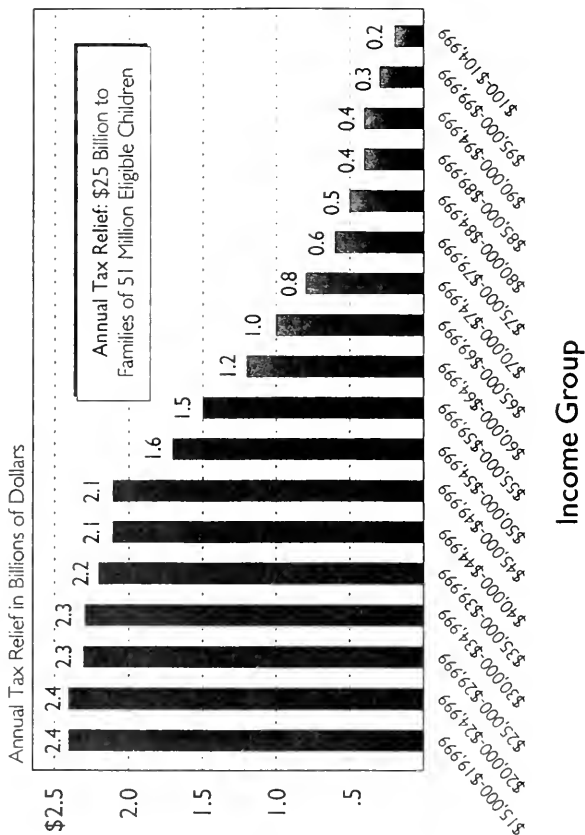
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The choice to me is simple. Families are the center of our society. And none of the social problems we face today will be corrected until we put families first.

"Families First" is not a Republican or a Democrat idea—not a Liberal or Conservative idea—it's a good idea—a progressive, pro-family proposal for the nineties. And one that we believe must be enacted this year.

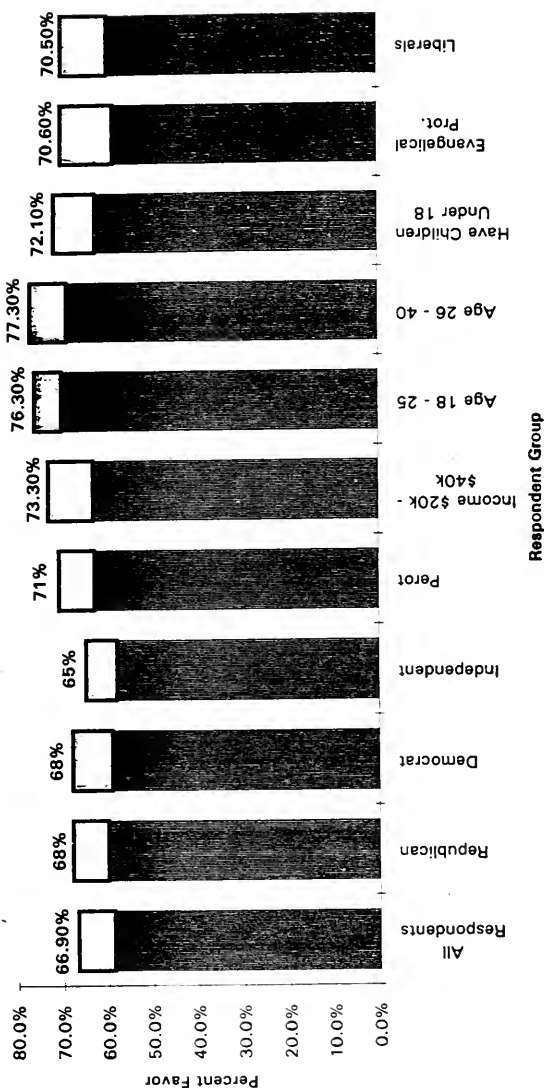
Thank you, Mr. Chairman, and I now yield to my distinguished colleague, Tim Hutchinson.

Middle-Class Families Pocket 78% of the Total Dollars Returned by a \$500 Per-Child Tax Credit



Source: Heritage Foundation calculations, based on U.S. Bureau of the Census data.

PUBLIC OPINION FAVORS FAMILY TAX RELIEF -- EVEN IF PAID FOR BY ENTITLEMENT CUTS



☒ Would You Support a \$500 Per-Child Tax Credit off-set by Entitlement Cuts -- Excluding Social Security
 ☒ Push Question: Would You Now Favor if You Knew 72% of all Relief Benefits Families with Incomes Below \$50,000

STATEMENT OF HON. Y. TIM HUTCHINSON, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF ARKANSAS

Mr. HUTCHINSON. Mr. Chairman, I want to also thank you for the opportunity to come today and to testify and to give our ideas on the budget, and I don't want to duplicate or reiterate what my colleague from Minnesota has said. But I would like to underscore just a couple of things.

Rod outlined the families first proposal. I would like to focus on what I think is the key component in that plan and that is the middle class family tax relief and the \$500 per child tax credit.

Many of us believe, and I think most Americans believe, that the great American dream with which we were raised and cherished, is increasingly at risk, that we are slowly destroying the middle class in the United States and they are overtaxed. Their wages have not kept pace with inflation.

Many families also now have no choice as to whether or not they want to be a two-income family. They have got to have two incomes just to survive. And so while we all believe very strongly that a woman ought to have an equal opportunity in the work place and have equal wages, and if a family even wants to, for mom to stay at home and spend her time rearing the children and investing her time and energies in the children, for many middle class families that is not even an option any more because of the anti-family tax bias that we have in our tax code. A \$500 tax credit would help middle class families by increasing their purchasing power.

In the Third District of Arkansas which I represent, there are 120,000 children that would be eligible for such a tax credit. That is \$60 million that would stay in the pockets of hard working Americans who pay their taxes, go to work every day, and are concerned about their families and children. That would provide needed purchasing power for the middle class families.

Realize again that vanishing American dream and you know many of these middle class families are now eligible for entitlements, be they Pell grants, immunizations, summer youth employment, or any other middle class type entitlement that we now offer.

The government is taking families' hard earned money through taxes and then benevolently giving it back to them in the form of entitlements. It is our contention that we should leave the money with the wage earner to begin with, that the American family and the taxpaying American is better capable of making a decision on how that money ought to be spent than we in government are. And as Rod said, 78 percent of that tax credit would go back to families that are making less than \$60,000 a year. And it really is middle class family tax relief.

Rod referred to some polls. I think the key number in that poll is that three out of four Americans say that they will favor tax credit for children even if it meant cutting entitlements. So family tax relief has been recommended across the board by those who have looked at the American family.

In 1992, the Rockefeller Commission on Children recommended a \$1,000 tax credit for middle class families. The Ozzie and Harriet family of 1948 virtually paid no Federal income tax because of the sheltering effect of the personal exemption. And now they are more taxed than they have ever been before. President Clinton cam-

paigned on middle class tax relief and promised specifically—a \$500 tax credit for children.

So I think it is critically important that we join with the Rockefeller Commission, that we join with President Clinton, and that we join with the vast majority of Americans in recognizing the need for family tax relief by including in this year's budget resolution a \$500 tax credit for children.

Thank you, Mr. Chairman.

Chairman SABO. Thank you.

A couple of comments, a couple of questions. Thank you for your testimony. It sounds on tax policy you are getting to where McGovern was in 1972. But as a part of the history of what happened last year, I have to tell you that the income tax increases of last year focused on the top 1.5 percent wage earners in this country.

For millions of Americans who were working with families, we had a significant increase in the earned income tax credit, which I thought was a very important part of our bill which was a direct refund in many cases exceeding \$500 to families who are working with children. And so the reality is that in 1993 as related to their income taxes many more Americans got a tax cut than got a tax increase, and those who received a tax increase were at the very top of the income spectrum.

But I am curious about your 2 percent limitation. You exclude Social Security but I assume any increase above that counts toward the 2 percent limit?

Mr. GRAMS. In the social court, Social Security we left out. That was supposed to be a self-sustaining fund.

Chairman SABO. Does any increase above 2 percent count toward the 2 percent?

Mr. GRAMS. No, not Social Security.

Chairman SABO. Let me ask this question, if you look at the balance of expenditures, we froze discretionary spending last year at or below the estimate of 1993, so there will be less than 2 percent growth in all discretionary spending over the next 5 years.

Where that growth is going to occur is in health care. I am just curious how you plan to limit our costs in Medicare and Medicaid to 2 percent. Do you plan on asking the seniors to pay more? Do you want us to reimburse less to the hospitals, to the doctors? How do we get there because that is what the heart of our problem is.

Mr. GRAMS. Okay. In our program, Mr. Chairman, what the program says or the budget plan that we propose is, if a 2 percent cap overall in spending—what we have to do is set priorities and in it is Medicaid and Medicare. If those programs have to go and the need is there, just like we do in our personal finances, it might mean we don't take a trip this year.

Chairman SABO. That doesn't help us.

Mr. GRAMS. Some programs can grow. That could be Medicaid and Medicare. Some have to be produced and eliminated.

Chairman SABO. That doesn't help us because where the real growth is is in the health care special expenses. How do we get to that 2 percent? That is what we are looking for in health care reform. We are told that cost control can't be part of the solution.

You know the alternatives. Are you making the system cost less in some fashion or else you simply switch the costs from Medicare-

Medicaid onto the recipients and in this case significantly increase premiums for seniors.

I don't know what you are suggesting or do you limit substantially the reimbursements to providers? You got to make up for demographic growth. That is part of the increase. We are looking for good suggestions on how to do it.

Mr. HUTCHINSON. Mr. Chairman, I don't mean to skirt the issue. Chairman SABO. You will delegate it to us.

Mr. HUTCHINSON. Well, no. In our budget plan, what we suggest is that if you are going to have a balanced budget you must have a framework. In fact, some of my colleagues have called what Rod and I have introduced "the balanced budget implementation act."

I believe that the only way, with all due respect, that we are ever going to have this Congress get a handle on our deficit and our spending practices is to approach it as we did on the base closure, where there is an up or down vote, and the painful cuts that are alluded to, and there will have to be some very painful votes, will be on an up or down package in which we achieve the 2 percent cap.

Chairman SABO. What about health care? How do we get there?

Mr. HUTCHINSON. There are a host of plans before Congress currently that are going to address the health care area. I don't know the answer to that.

Chairman SABO. Frankly, none of us get it down to 2 percent.

Mr. GRAMS. Mr. Chairman, could I interject?

What I am saying under flexible freeze, if Medicaid or Medicare had to grow by 6 or 7 percent, it would be allowed. But somewhere else in the budget, other areas would have to be cut, reduced or eliminated in order to remain at an overall 2 percent cap. So we are not saying Medicare could not grow more than 2 percent, we are not putting price controls on that, but I think if you look through the budget there are many items in the budget that are very nice projects, but can we afford them?

Chairman SABO. Just so I understand discretionary spending—

Mr. GRAMS. I am talking entitlements across the board. There are no sacred cows.

Chairman SABO. Which ones do you have in mind?

Mr. GRAMS. Any of them.

Chairman SABO. Frankly, after you get through Social Security and retirement programs and Medicare and Medicaid, there isn't much money.

Mr. GRAMS. Across the board there are going to be areas where it is going to have to be cut. But we can't continue to spend.

Chairman SABO. Which ones?

Mr. GRAMS. We are open. I mean, what our proposal says, we set a framework. Everything is going to change. We have set a framework and we are going to have to sit down just like you do—

Chairman SABO. Anybody can put out a framework that is totally removed from reality, out of the sky. The heart of our problem is health care costs. They are projected this year to be 3.7 percent of gross domestic product. Medicare and Medicaid by 2004, they are projected to be 6.3 percent of our gross domestic product. That is the heart of our budget problem which comes on the expenditure

side. If you want to be serious about proposals, tell us how we get a handle on that.

Mr. GRAMS. Is the Chairman proposing that we continue to borrow money to pay on it? Is that the proposal that the Budget Committee is going to make?

Chairman SABO. I am asking—you have got a framework and I am asking how you got there.

Mr. GORDON. Porter Goss just came before us with a list of 76 budget cuts. I think that is what we are asking for, is something specific. So maybe you might want to adopt Porter's or you might want to have some of your own.

Mr. HUTCHINSON. What I would suggest is any one of us could come up with a list as well, and Tim Penny did and John Kasich and Porter Goss did. I believe we can come up with our list.

But while I think we could talk specifically about what the greater need is, what we are actually talking about is a framework where we achieve a limitation on the growth of Federal spending.

Chairman SABO. We look forward to your recommendations on health care. Just so you have the numbers, last year the change in the earned income tax credit I think netted a tax reduction for 14 million families, 4.5 million single workers in the top rate changed the impact of about 1.5 million people.

Mr. Gordon.

Mr. GORDON. Well, you are certainly discussing two topics I am concerned about, and I think most Americans are concerned about, certainly in Congress, that is, reducing taxes and reducing the deficit.

I am pleased that last year was not a hypothetical but was done, as Martin said. Because of the earned income tax credit, I don't know, something like 20 percent or more of working families in this country will get rebates, will get tax cuts. I think that goes up the next couple of years to those families making \$27,000 or less. Working families will get tax cuts about 20 percent or more. That is a good start.

In the area of tax cuts, because of the budget last year, the budget deficit is going to be 40 percent lower than was projected just a year or so ago. Those are, I think, good, concrete beginnings and they are specifics. So I would like to see more of that. But they require hard votes on the specifics. I would hope, as Mr. Goss has come forward I think with some very good suggestions, that you might also get together and try to come forward with some specific suggestions about where we can make some cuts or savings or just some cuts.

Chairman SABO. I thank you. We are about—

Mr. HUTCHINSON. Could I just make one comment, and I appreciate, Mr. Gordon, what you have suggested to us and we will certainly take that to heart. And I also appreciate the comments you have made regarding the EITC and what that has meant for working families. But I do think that with that acknowledgment that every objective student of the American family today, whether it be the Rockefeller Commission, the Clinton Commission, or the conservative groups will say that the middle class American family is squeezed more today, has a tougher time with the tax burden today, has a tougher time with the burdens of college tuition and

rearing children today than they have ever before, and that while we may applaud small incremental steps of last year on the EITC, there is a huge job yet to be done. That is why we have come here today to suggest certain needs which should be addressed in this year's budget.

Mr. GORDON. I agree. I am glad we can start with over 20 percent of working families in this country getting a tax cut. But it would not be fair to the rest of those working families to put additional debt on them. If we just haphazardly cut taxes without also reducing the deficit and that just makes the deficit go up, we are doing those families a disservice to their kids. They will inherit that. Let's make it easier to raise those families, but let's not put the burden on their children and grandchildren.

Please come forward. I have marked several of Porter's recommendations to look into. I hope you will bring us some additional ones we can also look at to cut.

Mr. GRAMS. Just a final note, comment before I leave. It is easy to come up with lists. We could all go through the budget and say these are our lists, but until we sit in your chair and make those tough decisions line by line on the budget that is going to actually be proposed those are hypothetical cuts you are getting and receiving. That is where the tough decision has to be made.

So to ask us to come up with these cuts, if we were sitting there and had them and looked at them line by line, that is when the decisions will have to be made, and what we say is let's provide the framework to sit down in the room to make those tough decisions. To me, it is imperative that these decisions be made because if we put off the so-called tough decisions another 5 years, those decisions won't even matter much.

Mr. GORDON. If you would like to come back with a full budget, if you want to be a surrogate and bring us a surrogate budget, that would be a great framework to start. Why don't you just bring us that back and if you think it should cut 2 percent across the board, fine. If you think it needs to be maybe one here, three there, why don't you bring that to us and it will be very instructive and we would love to have that. I am sure the country would like to have it.

Mr. GRAMS. We will work on it.

Mr. HUTCHINSON. Thank you, Mr. Chairman.

Mr. GORDON. When can we expect it?

Mr. GRAMS. 2:30.

Mr. GORDON [presiding]. Mr. Sharp.

STATEMENT OF HON. PHILIP R. SHARP, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF INDIANA

Mr. SHARP. Thank you very much, Mr. Chairman. I will try to summarize my testimony. I know you have a number of Member witnesses this morning.

First, let me praise the committee. I think the country is beginning to understand that last year this committee and the House and the Senate and the President fully engaged in a program of serious deficit reduction. We are now beginning to see the evidence of that program. Soon people will be able to judge for themselves the truth of it rather than all the inflated rhetoric that went

around the budget debate last year. There is going to be dramatically and substantially less borrowing by the country as a result of that budget agreement.

As you just indicated, Mr. Gordon, the working families in this country, a heavy percentage of them, are getting tax cuts designed to help recognize their needs and to stimulate the economy, and the tax increase really was on the people who were most favored in the 1980's and who were in the best position to pay their fair share.

Mr. Chairman, I really want to address one sector of the budget for 1995, the energy budget, and to generally endorse the administration's effort here because they really are moving forward in conjunction with last year's deficit reduction package in terms of the overall fiscal impact, but in addition to that, they are making some significant and important changes in the priorities of how we spend what money we will spend.

On the fiscal side, it is very important to recognize, that in fact what the administration will be urging us to spend next year at the Department of Energy will be absolutely less than what the country is spending this year. Indeed, we will drop by 2.6 percent if we follow their recommendations and they do that through a number of program terminations. Real honest ending of spending in the government—and I have listed some of those in my statement and you, of course, have the full data from the administration.

I would only highlight one because it is one the House of Representatives voted at least twice last year to eliminate and that is the advanced liquid metal reactor, which is an experimental plutonium power plant. There are a variety of reasons that I won't go into here as to why I think that is wise. The administration is clearly on board for its termination, and I would hope that would be completed this year.

But within the budget recommendation they are also making some significant shifts in how we spend the money, and I think that represents good sense for the country in terms of economic growth, good sense in terms of environmental concerns and in terms of our energy use, because there will be a new emphasis on energy efficiency, on renewables and natural gas, and other alternative fuels. And I might say this is very importantly connected to the administration's climate change action plan that relates, of course, to our international commitments on global warming. And I think most people, observers, and participants agree, that the international pressures are going to grow for us.

We will be among the leaders I trust to address the problem of the global climate and wisdom says we should get started in ways that are very cost effective and which actually serve other goals besides our climate change obligations. Failure to do that probably means that we do more drastic kinds of things 5 or 10 years from now.

Mr. Chairman, I particularly want to highlight the renewed and very dramatic effort in this budget to try to cut the energy consumption by the Federal Government.

We are the biggest consumers probably anywhere in the world now that the Soviet government no longer exists. We purchase \$11.3 billion worth of energy for all our buildings and vehicles each

year. And, frankly, many experts believe that we could save a fourth of that money if we take more seriously how we purchase and utilize energy. This is a real place where taxpayers gain and where we make smart energy policy if we will go ahead.

One other item and then I will stop, Mr. Chairman, and that is that we do have a serious issue dealing with the financing of the high level waste program. I raise this because this affects this committee and the budget process. The high-level radioactive waste program, Yucca Mountain to our friends in Nevada is funded through a fee on all users of nuclear energy throughout the country.

The utility fee, and of course it is run through the budget process and most people recognize we have to keep up the actual appropriations, the fee is mounting up. The money is there to be spent in order to effectively move the program forward. We want to maintain good congressional oversight in the process and we want to meet the objectives of the Budget Act.

And here there are some very serious complications as to how to carry out this program and not become afoul of the Budget Act and we will be looking forward to working with you on that proposition.

In my notes I have something on the strategic petroleum reserve that I hope you would take a look at and I do want to highlight one quick place where I think the administration is making a mistake in their cut on the LIHEAP, or the Low-Income Home Energy Assistance Program.

This has been vital, and indeed the Congress did respond in the emergency supplemental appropriations recognizing the severe winter in the Midwest and Northeast, but the annual appropriations are being rather dramatically slashed and there has a serious corrosive impact that I don't think the earned income tax credit makes up for.

Thank you very much, Mr. Chairman.

[The prepared statement of Hon. Philip R. Sharp follows:]

PREPARED STATEMENT OF HON. PHILIP R. SHARP, A REPRESENTATIVE IN CONGRESS
FROM THE STATE OF INDIANA

Thank you for the opportunity to testify before the Budget Committee. As chairman of the Energy and Power Subcommittee of the Energy and Commerce Committee, I would like to address a number of issues related to the energy priorities of the Administration's fiscal year 1995 budget request.

Funding for energy programs is significant because of the importance of safe and affordable energy supplies to the economy in general and because of the potential contribution of sound energy practices to environmental protection. The Administration's budget request for the Department of Energy (DOE) deserves special praise for carefully balancing fiscal discipline with additional support for high priority initiatives.

The first point I would like to emphasize is that DOE's overall budget for the DOE would be decreased by about 2.6% from the FY 1994 level of funding. This proposed reduction indicates that the Administration is serious about its commitment to reduce the deficit and realizes that new government activities will need to find some way to pay for themselves within the Federal budget.

The proposed decrease in DOE spending would be accomplished in part through initiating or completing certain program terminations such as the SP-100 space reactor, the Superconducting Super Collider, the Atomic Vapor Laser Isotope Separation technology, and the Advanced Liquid Metal Reactor (ALMR). In addition, the Administration would continue a trend away from spending on DOE defense production to greater emphasis on civilian energy programs.

I want to commend the Administration especially for its decision to finally terminate the ALMR technology. The ALMR, an experimental plutonium power plant,

has been criticized for being uneconomical, lacking environmental benefits, and raising serious concerns about nuclear proliferation. Accordingly, the House voted to terminate this project twice last year and I am sure will welcome the support of the Administration this year.

The second point I would like to make is that within the constraints of an overall decrease in its budget the DOE has managed to propose significant funding increases for high priority programs with the greatest potential return. Such programs include energy efficiency, renewables, natural gas, and other alternative fuels. Many of these programs will also contribute to the Administration's Climate Change Action Plan and other environmental objectives. Therefore, increases for those high priority programs should be fully supported.

Since 1973, Americans have saved more energy through improved efficiency than all the increases in production of traditional sources of energy put together. This is why Congress made energy efficiency the centerpiece of the 1992 Energy Policy Act (EPAct). Energy efficiency and renewables can yield many benefits to the U.S. economy including decreasing our dependence on foreign oil, expanding export opportunities, creating jobs, saving consumers billions of dollars a year.

Here are some examples of some successful Federal Programs: A 30% renewable energy goal for alternative fuel cars, running for example on ethanol or others from biomass, is set by the EPAct. A variety of new conversion processes now under study could provide greater volumes of these replacement fuels at lower prices, to help meet this goal.

Upgrading appliance efficiency and building codes established under the EPAct, with technical assistance and incentive funding as a "carrot" to go with the "stick" of the new requirements, will add to previous savings. The original appliance standards passed by Congress are expected to save the equivalent of the output of 28 large, 1000 megawatt power plants.

New and innovative wind energy technologies have been proven technically feasible and cost-effective, non-profit consortia can be formed to deploy clean photovoltaic (PV) power in cost-effective utility applications, and the U.S., through a DOE industry partnership program, is the geothermal industry leader in the world.

The U.S. government is the Nation's single largest energy consumer. In 1991, the government spent \$11.3 billion on energy for its buildings and operations. The Federal Energy Management Program (FEMP), a program to increase cost-effective energy efficiency in buildings and facilities of the Federal government, could save about a quarter of annual Federal energy spending on buildings.

Advances and commercialization of geothermal technology can further increase exports to the Pacific Rim and Central America. One project now planned for the Philippines will account for over 400 megawatts of clean power by 1997.

The Administration is also preparing a proposal to change the financing system for DOE's High-level Radioactive Waste program. Such a proposal will raise many important questions regarding level of expenditures, program management, compliance with budget requirements, and proper Congressional oversight. The Committee will carefully review this proposal once it is final and will take appropriate actions at that time.

In evaluating the Administration's proposal for the Nuclear Waste Fund, it is important for us to keep in mind what the objectives of any such proposal should be. I believe the first objective should be to ensure that an adequate amount of money can be made available for this program as increased expenditures for it are required. The program is meant to be self-financing through utility contributions and as long as the industry continues to pay its share of the costs, they deserve an assurance that the necessary resources will be forthcoming.

The second objective should be to ensure that there is sound program management for the program. We should keep in mind that the issue is not simply how much money is being spent but also how well the money is being spent. Proper Congressional oversight will be part of the effort to maintain cost and quality controls over the program.

The third objective should be to ensure fiscal responsibility and to comply with the requirements of the Budget Act. I look forward to working with this Committee as the review of the Administration's proposal proceeds to help make sure that this objective is also achieved.

The Strategic Petroleum Reserve (SPR) is this Nation's insurance policy in the event of sudden oil supply and price disruptions. The FY 95 budget proposes to stop filling the SPR. This could mean two things: First, the SPR would stay at its current size (about 590 million barrels). Second, the recently constructed available SPR storage space (about 140 million barrels) may never get filled up.

While we have over \$300 million now available from previous years for oil purchases, the budget proposes to shift that over the next three years to pay for some

of the SPR's ordinary operating, repair, maintenance and facility upgrading costs. The resulting lower requests for SPR operating costs mean that the \$300-plus million now available to buy oil is, in effect, being diverted to deficit reduction.

This may be a wise policy, but I have asked DOE to provide us with a broad policy review of how large the SPR should be and how and when it should be used. However, until that review is completed, I am in reluctant agreement with this deficit-cutting course, and urge approval of the SPR proposal.

In respect to clean coal technologies I would like to also express my support for the shift in emphasis in the DOE's budget to commercialization of technologies that have been developed. It is time we strengthen our ability to get innovations out of the laboratories and into the marketplace. In keeping with this philosophy, the Administration's export initiative in this area is especially valuable and deserves full Congressional support.

In respect to the Low-Income Home Energy Assistance Program (LIHEAP), I am deeply concerned about the Administration proposal to drastically reduce funding for this program by about half. LIHEAP funding for the poor, disabled, and elderly—those least able to protect themselves—continues to be a serious national need.

Between 1981 and 1992, the share of eligible households receiving crisis assistance from LIHEAP declined from 36% to 23%. Meanwhile, the assistance paid to each household dropped substantially in real terms, decreasing from \$213 to \$126 during the same period. LIHEAP has actually been underfunded for many years and certainly should not be cut in half at this time.

Thank you for your attention to these issues as you consider the Administration's budget request for FY 1995. I look forward, as always, to working constructively with the Committee to support the goals of effective government and deficit reduction.

Chairman SABO. Thank you.

Could you quickly tell us where we are at with the nuclear waste fund and the location of it?

Mr. SHARP. The administration is developing the legislation that you and all of us will have to consider this year on whether to make the fund off budget. But essentially we have in place a collection mechanism to collect funds for Yucca Mountain in Nevada, and they are actually under construction there. Of course, the goal at this point is simply to scientifically characterize it. That means to make the final judgment, we have to go in the ground and test the geology. Many tests are under way but we are starting to dig.

Chairman SABO. How long will that process take?

Mr. SHARP. You know, I don't have my staff person on this issue with me at the moment, and I am not totally sure. It has continually been delayed, and the risk here is that if we for budgetary reasons don't spend out of the trust fund that is building up, then we delay it further. And there is a great deal of concern. We are talking about 10 or 15 years before we have any nuclear waste in there, so this is a long-term proposition.

Mr. GORDON. If we gave rulings before people died and thank yous before they retired, I am not sure that people would not die, but maybe you wouldn't retire; we would have a better country. We are going to miss you and I add my thanks to your service here and ask you to give me a quick assessment of one thing that I am concerned about and that is our continued and increasing dependence on foreign oil. Do you see that changing?

You know some of the policies that could help turn that around. Do you have some suggestions of things that we might be able to get done?

Mr. SHARP. I thank you for your kind comments. I find that retirement is better than dying. It is almost as good as dying. There are all kinds of folks who have no desire to have me in Congress who suddenly find I have some merit.

I want to say on the import situation, our imports are going to grow there somewhere in the 40 percent range. Now they vary up and down. The expectation is that they will go up. The National Energy Act we passed will temper that somewhat.

I think the fundamental problem is that we don't—we are not really in our heart of hearts in this country—committed to self-sufficiency and, to be honest with you, over time I have come to believe that that is the right answer, that we can't be self-sufficient, and while we wish and hope the degree of dependency will not grow, the reality is the costs of preventing that are either enormously higher energy prices or intense regulation of the economy which has other negative effects.

So I think it is the kind of thing that we are going to monitor, watch, push toward more energy efficiency, and indeed, I would argue for the President's budget on this because it does try to emphasize that aspect of energy efficiency, but I think we have to face the unfortunate reality that we are going to be dependent on oil and the wise thing is just to have multiple sources and to have a highly flexible energy market that allows us to adjust.

Many of us are extremely pleased with the way in which in recent energy crises, energy has gotten where it needed to be. We have painful memories of the 1970's when a regulated market and the international situation combined to cause severe problems for our people.

Mr. GORDON. My other question, is there enough diversity in the international market now that we don't have to be as concerned about being held hostage and—

Mr. SHARP. Our stake in Russia is a very important one for a variety of reasons, but one of those is the quicker they get their production up—and they have been horrendously inefficient—the better off we are from an international point of view.

At the moment, one player has such a swing possibility that is up or down in their production, in Saudi Arabia. They of course are very close friends of ours and that works very well for us, but if something happens there politically or economically to upset that, there can be problems and the Iraq oil is still off the market. In fact, we are in a lot better shape today than we were in 15 years ago, in my view.

Chairman SABO. Thank you. And I share Mr. Gordon's comments about your service. We are going to miss you.

Mr. SHARP. Thank you very much.

Chairman SABO. Let me ask, I have Ron Mazzoli next on my list and Norm Dicks. Then George Brown. I know George has to leave.

Mr. MAZZOLI. This distinguished George Brown, is that the one you are referring to?

Chairman SABO. Go ahead, Mr. Brown.

Mr. BROWN. I am at your disposal, Mr. Chairman.

Chairman SABO. I understand you have to leave shortly.

Mr. BROWN. I have another appointment shortly.

Chairman SABO. Mr. Mazzoli.

STATEMENT OF HON. ROMANO L. MAZZOLI, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF KENTUCKY

Mr. MAZZOLI. Thank you very much, Mr. Chairman. I will make my comments as brief as possible.

Chairman SABO. The entire statement will be put in the record.

Mr. MAZZOLI. First of all, thanks to you, Mr. Chairman, for your leadership in the fiscal 1994 round. This room has the portraits of many of your predecessors and they were certainly distinguished. But, I think the round last year had especially courageous efforts and I salute you for the product, for the results.

I am happy to see that this process is on the fast track. I think it does provide an opportunity for us as a framework to look into the future, from a budgetary standpoint. I do represent, Mr. Chairman, the Third District of Kentucky, which is both an urban and a suburban district. It probably colors the responses that I will have today to the President's proposal for 1995.

The overall impression, as many of my colleagues have said today, is very good. I think the President is to be commended for having put together a package which recognizes and retains discretionary spending caps and painfully does terminate and curtail up to 300 separate Federal programs.

I think another impression is that it gets into the whole question of efficiency and effectiveness of government along the lines of the National Performance Review by our former colleague, and now Vice President, Al Gore. And, I think the American people feel that it is very important to provide an efficient form of government.

And I believe that it is helpful that we are now looking to the investments which we weren't quite able to do last year, the investments in health, investments in education, job training, investments in fighting crime. All of the investments will be helped by the money in the budget.

I have just a few items of some respectful difference with the President. I would just urge the committee to consider the question of mass transit operating subsidies. We are well aware of the concerns, that we who represent urban areas, must bring to your table. It is helpful there are some capital spending increases for mass transit. The operating subsidies are extremely important. I would hope your distinguished committee would find some opportunity to fit in the operating subsidies.

Also, you are very well aware, Mr. Chairman, the Community Development Block Grants, CDBGs, are proposed to be cut by the administration, along with the proposed cuts in public housing. While they may be offset, there may be some new movement. Those would be for us in the Jefferson County area rather difficult to accommodate.

I would mention that while the imposition of a tobacco tax would not cause me to avoid voting for a health care plan, and that is why the President has put this in for, and if this committee does recommend and go forward with some kind of a tobacco tax, I think, in fairness to the tobacco farmers and in fairness to the people who process tobacco, I would hope there would be some type of an earmark that would allow for the job training and the retraining and the education that these people will need to go into other activities. A tax will obviously diminish the use of tobacco.

Very briefly, Mr. Chairman, I hope you could look sympathetically on library programs which the budget proposes to reduce. Libraries have been central to my life and to many of our lives, and any effort that we can make, at the Federal level, to encourage libraries and the use of books and material, information, I think would be extremely helpful.

Also, Mr. Chairman, the Byrne anti-drug grant program, the State block grant programs for anti-drug efforts, has been proposed to be reduced. They have been helpful in Kentucky.

On the issue of immigration, I happen to chair the subcommittee in the House on that subject. I think it is important for the committee to look—because you asked, Mr. Chairman—at how we can reduce health care costs? Just in the category of health care, there could be hundreds of millions of dollars saved that American taxpayers are paying for people who are here in this country illegally for health care benefits.

So certainly some kind of a response on the part of your committee toward the issue of immigration is in order as well as some sympathetic response you might have to proposals of the administration and of others to more secure the border to prevent people from coming in illegally and to determine who is in this country illegally. Maybe we can get into, at some point the whole question of identifiers. Since the President proposes a card for all of us to have for health care, we have broached the subject of an identifier which could be used for other purposes.

Mr. Chairman, there is a very tiny program, in gross numbers, \$30 million, which is in the Small Business Administration budget. It is called the 503 Program. Some of the constituents in your district probably have borrowed money under the now extinct 503 Program, which requires a very, very heavy penalty, prepayment penalty if one wishes to refinance the loans to get current, lower interest loans in the communities.

For example, Doug Gossman who has two restaurants in my home town of Louisville, Kentucky, would like to open a third one but can't refinance his 503 SBA loan because the prepayment is 40 percent of the unpaid balance. So the administration, to its great credit, is coming forward with a \$30 million program in the 503 to help these entrepreneurs prepay their debt in order to create new jobs. So I hope that you are sympathetic to that.

Mr. Chairman, that ends my statement, except to again congratulate you on your stalwart response to the whole difficulty of the pay-go and offset programs that you now have to have.

Chairman SABO. I thank you for your kind comments. I also thank you for your service in the Congress. You are another one of those like Phil that we are going to miss very much because you have made a real contribution to this constitution. We wish you the best in the future.

Mr. MAZZOLI. Thank you very much, Mr. Chairman.

Mr. PRICE. I would like to echo the Chairman's words. We will miss you. We appreciate your helpful testimony here this morning as well.

Mr. MAZZOLI. Thank you very much. I will certainly miss all of you and hope to come back from time to time.

Thank you, Mr. Chairman.

[The prepared statement of Hon. Romano L. Mazzoli follows:]

PREPARED STATEMENT OF HON. ROMANO L. MAZZOLI, A REPRESENTATIVE IN
CONGRESS FROM THE STATE OF KENTUCKY

Mr. Chairman and Distinguished Members of the Committee: I appreciate this opportunity to testify before you today on the Administration's Fiscal Year 1995 budget proposals.

The Committee deserves credit for putting consideration of the Fiscal Year 1995 budget resolution on the "fast track." Early action on the budget resolution will provide the budgetary framework and financial guidance for the economic growth and investment proposals to be considered by the Congress for the last session of the 103rd Congress.

Mr. Chairman, I am privileged to represent Kentucky's Third Congressional District, which is comprised of Louisville and Jefferson County. As one whose District is urban and suburban in makeup, my views on budget issues will reflect my belief in the continuing urgent need to address the pressing problems facing America's cities and towns.

Let me begin, however, with my overall impressions of the President's budget proposals. I believe the President is to be commended for putting together a package which will continue the nation down the path of deficit reduction which we began in 1990. And, it's a tough, disciplined budget by maintaining the discretionary spending caps of the Fiscal Year 1994 levels. The President also proposes to either cut or terminate more than 300 federal programs.

This leads me to my second impression of the President's budget. Along with enacting the recommendations of the National Performance Review, the President wants the Federal Government to be more efficient and to have more cost-effective management. We may pay for more Federal Services than we have in the past. But, implementing the recommendations has great potential for providing a better and more effective delivery of services to the people.

Mr. Chairman, the President's budget also makes a positive statement on investment. We are investing in health and welfare. We are investing in the education and job training of our people, and we are investing in fighting crime.

Having said this, Mr. Chairman, each one of us here in Congress has differences with the President on specific items in the budget which I hope this Committee and the Congress will improve during the legislative process. Many of my specific concerns echo that of Louisville Mayor Jerry Abramson, president of the U.S. Conference of Mayors.

In the area of transportation, the President's budget proposes a cut of 25%—to \$600 million—in the amount of Federal Transit Administration formula grants that can be used for operating assistance by the nation's public transit systems. However, the President's budget does call for a 40% increase—about \$200 million—in formula grants for capital spending by transit systems. I believe the task here may be to balance the cut in mass transit subsidies with the increase in capital expenditures.

A second point of concern is the President's proposal to reduce the Community Development Block Grant program by \$240 million. Providing for the affordable housing needs in my community is a priority for me and for Jefferson County Judge/Executive David Armstrong and Mayor Abramson. Restoring this funding, along with restoring the proposed \$1.294 billion cut in public housing assistance, will help meet this important goal.

A third item included in the President's budget which deserves comment is the proposed increase in the federal excise tax on cigarettes by \$.75 per pack in order to pay for health care reform legislation. Mr. Chairman, in fairness to tobacco farmers and tobacco industry employees, if such a tax is proposed by this Committee and by the Congress, it must be fair in amount and part of its proceeds must be earmarked to help farmers and workers prepare for new jobs and new careers outside the tobacco industry.

With your permission, I would like to offer my views on two other-items. One is the proposal to eliminate funding for several library programs. I would encourage this distinguished Committee to review this plan with a very critical eye. The Louisville Free Public Library in my District is struggling—as are libraries around the nation—to meet the demand for services, and a further reduction in funds could be devastating. I maintain that a strong library system is critical to any community's efforts to become and remain a viable competitor in the world marketplace.

The second proposal is one which eliminates the state block grant portion of the Byrne anti-drug enforcement grant program which currently provides \$529 million for the anti-drug enforcement effort. Even though the discretionary portion of the

program would be doubled, reaching about \$100 million, this proposal absolutely sends the wrong message about the nation's commitment to win the war against drugs.

Before concluding, I would like to elaborate briefly on my earlier remarks about the very important investment components of this budget proposal. I am pleased that many programs targeting women and families are slated to receive funds equal to those appropriated in 1994. And, it is worth noting that program increases are suggested for the areas of women's health research, childhood immunization, and family preservation support. In my view, these will always be very wise investments.

Your task is unenviable, Mr. Chairman, but I believe everyone on this panel is ready to do the hard work and make the tough choices. Thank you for your time and for this opportunity to appear before you.

Chairman SABO. Thank you.

Mr. Skeleton, Mr. Dicks. We will put your entire statement in the record.

STATEMENT OF HON. IKE SKELTON, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF MISSOURI

Mr. SKELTON. Thank you, Mr. Chairman.

Mr. Dicks and I certainly appreciate the opportunity to appear before this committee. As you know, we are members of the House Armed Services Committee and the appropriations subcommittee dealing with national defense, respectively.

I would like to first point out the issue of reducing the defense budget further. It is of serious concern.

And I also wish to mention—and it is quoted at length in my prepared statement—the President's decision and words in his State of the Union Address, when he said that he wishes to protect the defense budget. He said, "The budget I send to Congress draws the line against further defense cuts. It protects the quality of our forces."

I hope the Congress will support that position.

Yesterday, in the Armed Services Committee hearing, during the Navy posture statement and also in another hearing, the subcommittee on the appropriations where Mr. Dicks was present, I discovered in our committee that the Bottom-Up Review, which is bare bones and, frankly, in my opinion has some serious flaws—but the bare bones Bottom-Up Review concerning the Navy, we lost 16 ships without sighting the enemy. The Bottom-Up Review calls for 346 ships. They came over yesterday and testified about asking for 330 ships.

Mr. Dicks faced a similar situation and discovered the loss of a number of bombers which he can touch on during his testimony. But we are going, it appears, below the Bottom-Up Review, and, of course, I think one way to save this would be to establish the firewalls.

Let me also point out this morning's paper showing the uncertainty of the world: that Russia is not cooperating with our CIA investigation of the mole in that organization; that Mr. Yeltsin is stating that Russia will be more assertive in the future. Also, there is some concern about the number of Russian troops in Bosnia. And there was also the warning by Mr. Yeltsin against Eastern European countries joining NATO. So this is an uncertain world, in addition to the various regional conflicts that are potential.

You will recall, Mr. Chairman, 3 years ago I came before this Budget Committee and testified about the necessity of maintaining a strong national defense. And 3 years ago we had just concluded a major war. And I asked the members of this committee to look at the long-term interests of our Nation in maintaining our capacity for defense.

At that time, during the House Armed Services hearings, I asked General Colin Powell, the Chairman of the Joint Chiefs of Staff, if the Base Force, the Cheney budget Base Force, could handle two major regional contingencies such as Desert Storm and the defense of South Korea. At that time his response was that our force would be stretched, using his words, to the breaking point.

The Bottom-Up Review is less than that, and what we are seeing now, we are going below the Bottom-Up Review. That has caused me a great deal of concern. And the place to draw the line is in your committee, Mr. Chairman.

I am here with the same message. I am consistent. And, as you will note, 3 years ago we had the base force. Now we have the smaller so-called Bottom-Up Review.

I would like to point out that the President's message is one we should heed.

People speak of a peace dividend. Let's look at the so-called peace dividend for a minute.

In 1986, we were spending 6.5 percent of our Gross National Product for national defense; in 1994, an even 4 percent. In 1999, there will be an estimated 2.8 percent.

This, of course, is a serious matter. Because we find ourselves as of this moment—based on a John Collins study, at the present time all services find it increasingly difficult to recruit and train necessary numbers of high-quality personnel. All services increasingly juggle funds and other resources to continue essential training. All services increasingly favor crisis response forces. All services increasingly defer depot maintenance to conserve funds for current activities. All services increasingly defer some real property upkeep for similar reasons. All services increasingly downgrade, defer or abandon some important modernization programs.

We in the past as a country—and the Congress in one of those two instances—sent the wrong message which resulted in conflicts at a later date. In 1939, the Congress of the United States, the House of Representatives, refused by a vote to fortify by some \$5 million the harbor at Guam, sending a message to the imperial empire of Japan that we would not defend the Pacific.

We all know what happened later. In 1949, Dean Acheson unfortunately made a speech that excluded Korea from our national interest. In 1950, less than a year later the North Koreans went into South Korea.

We need to not send a message that we will not maintain an adequate force. The buck stops with us in the Congress.

Thank you, Mr. Chairman.

STATEMENT OF HON. NORM DICKS, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF WASHINGTON

Mr. DICKS. Mr. Chairman, this is serious business. I have great respect for my colleague from North Carolina. I know he cares

deeply for this country and where we are going. What my colleague has just told you is absolutely true. And I understand the budgetary problems that we face.

If you take the period between World War II and Korea, it provides a great historic example. There was a euphoria in the country. World War II had been won, we were militarily prepared, but within 5 short years that military was dismantled.

It was dismantled too rapidly. We cut back too far. And we were almost blown off the peninsula in Korea and lost thousands and thousands and thousands of American lives because we let the force get in trouble.

We are at that point again, in my judgment. I served on the Appropriations Committee in 1979, when they told us we had a hollow force, a force not ready to go out and do the mission. We are getting to that fragile point again. A number of us spoke directly to the President and Vice President about this just a few months ago. We told them that based on our collective experience that we see the military starting to come unraveled again in terms of readiness and modernization.

We just saw the greatest example of what it means to have a marriage of well-trained, ready forces and good modern equipment. For years there were stories about the tank and the Apache and the Bradley and the F-117. All these programs were criticized when we bought them, but when we had to go out and fight that war, we were able to take the Iraqis apart within a matter of days.

And what does that mean? The most important thing it means is we saved American and allied lives. Lives are saved when you have a ready force and a force that is modernized.

We have been cutting defenses, by the way, since 1985. We have gotten to the place now where if we cut it further we are going to be risking American lives. God knows none of us want to see it happen, but it could be another Korea, it could be an Iran, it could be in some engagement with a former republic of the Soviet Union. When we send those kids again to protect our security if we don't have the readiness and if we haven't bought the equipment, we are going to lose a lot more lives than should be lost.

Ultimately, under the Constitution, it is the responsibility of this Congress to make sure we have adequate military preparedness. I just want to come to this committee today and say as strongly as I can that we are at the ragged edge now. If you take it down further, you are risking American lives in the future. And this is real tough business.

I have been out and talked to our commanders. We are short of what we need in Korea. This Bottom-Up Review doesn't hold water, frankly, in terms of the kind of equipment we need. We are today below what we need to handle two major regional contingencies. There is no doubt in my mind about that.

If we can handle one is what I really worry about, whether we can do another Iraq war situation today with the military forces that are cut back. Eighteen divisions coming down to ten; 547 ships down to 330 bombers. They couldn't even tell us how many bombers we are going to have.

I was just in Korea. It is a classified number, but we need about three-fourths of the bomber force just to handle the conventional scenario in Korea.

So I am just telling you we are there at the point where the President is right. We shouldn't cut defense any further.

And when you look at these numbers for this decade, mandatory spending is going up 38 percent between 1990 and 1999 in outlays. Domestic discretionary spending is going up 12 percent, and defense is going down 35 percent.

I mean, at some point we have got to face the reality that one of the most important things in this entire budget, one of the most important Federal responsibilities we have, is to maintain our basic military strength.

And I hate these tough trade-off decisions as well. But if I had to do it and you asked for specifics—I would rather do the COLA light proposition and go minus 1 percent and tell you that we have to do it for two reasons: to get the deficit under control and to maintain our defense strength. Something like that is going to have to be done.

The entitlement issue is critical. We have faced reality on the discretionary side of the budget. I think we are maybe doing a little too much in that sector. We have got to do something on entitlements. Maybe this commission will give us some ideas.

But I think we have got to face up to it, and I am willing to say I would support that if it was proposed by the committee.

[The prepared statement of Hon. Norman D. Dicks and Hon. Ike Skelton follows:]

PREPARED STATEMENT OF HON. NORMAN D. DICKS, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF WASHINGTON AND HON. IKE SHELTON, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF MISSOURI ON BEHALF OF "DEMOCRATS FOR A STRONG DEFENSE"

Mr. Chairman, we welcome this opportunity to present the concerns we share with 19 other Democrats in this House that the President's budget goes as far as can be justified in reducing spending on national defense. We would strongly oppose any effort to further reduce the defense budget.

The President in his State of the Union speech on January 25 clearly stated his position on this issue. He emphasized that:

"There are still dangers in the world—rampant arms proliferation, bitter regional conflicts, ethnic and nationalist tensions in many new democracies, severe environmental degradation the world over and fanatics who seek to cripple the world's cities with terror. As the world's greatest power, we must therefore, maintain our defenses and our responsibilities.

"... Our forces are the finest military our Nation has ever had. And I have pledged that as long as I am President, they will remain the best equipped, the best trained and best prepared fighting force on the face of the earth.

"Last year I proposed a defense plan that maintains our post-cold war security at a lower cost. This year many people urged me to cut our defense spending further to pay for other government programs. I said, no. The budget I send to Congress draws the line against further defense cuts. It protects the readiness and quality of our forces.

"... we must not cut defense further. I hope the Congress without regard to party will support that position."

As the members of this committee are well aware, we have already cut defense significantly since its peak level in 1985 in recognition of the dramatically changed military threat. The cumulative change to date from 1985 is 33.7% in real terms. And it is important to remember that the budget still assumes additional cuts beyond today's levels, and below the levels proposed by the Bush Administration. By 1999, the defense budget will have been cut by over 40% in real terms from 1985.

Defense spending by 1999 will be at its lowest post-World War II level in terms of its share of GNP, 3.0% and as a share of Federal outlays, 13.2%.

Direct reductions in the defense top line are only half of the problem. Increasingly, there are efforts to transfer functions to the Defense Department that have been performed by other agencies. Assistance to the former Soviet Union, high-technology dual use research (\$2.1 billion in FY 95), health related research, and Coast Guard operations are just a few examples. Costs associated with defense conversion exceed \$1 billion. Already this year, some of our colleagues have suggested funding the impact aid program from the defense budget, and we expect there will be additional efforts to relieve pressure on various domestic budgets.

Many democrats question the wisdom of going as far in cutting defense as the administration has proposed. A group of us met with the President last fall to express our viewpoint. We put particular focus on the identified shortfall between resources allocated to defense and funds needed to meet the requirements of the bottom-up review, which has been estimated to be \$50 billion or more.

Partly as a result of that meeting, and fundamentally because of a clear demonstration that the President's pledge to maintain the quality of forces our Nation requires would be jeopardized, a modest adjustment has been made in defense spending plans over the next five years. A restoration was made of about one eighth of the additional cuts that President Clinton proposed beyond the Bush planned reductions. We view this as the absolute minimum that can be accepted.

It is still unclear whether this modest adjustment will meet the identified shortfall. Progress will depend in part on full success in reinventing government recommendations, and savings that Secretary of Defense Perry hopes to make in the areas of acquisition reform, financial reform, and base closures.

Progress will also depend on continued favorable trends in world events. As the President noted there are very real uncertainties in the world. The rise of ultra-nationalist sentiment in Russia combined with its fragile economic condition could well mean that the thousands of on nuclear weapons still operated by our former adversary could be turned against us, or against its weaker neighbors. Many of the other new Republics of the former Soviet Union could become serious threats to world peace and stability including conflict between Russia and Ukraine, or ethnic strife in the Caucasus.

One of us, Congressman Dicks, returned from a trip to Korea with Congressman Murtha. While we are pleased that the North Koreans have now agreed to some modest positive steps with respect to inspections of nuclear facilities, the very real possibility remains of a possible confrontation that could trigger a major conventional conflict.

In the longer run, and we have to consider the longer run given the lead time necessary to acquire modern weapons, we have to keep a close eye on South Asia, the Middle East, and increased military spending by China.

Today we have over 80,000 military personnel involved in various U.N. peace-keeping efforts—in Korea, Iraq, Somalia, the former Yugoslavia, and Haiti. We must have forces prepared to respond to future crises.

If any of the recent favorable trends in world developments is reversed, or if the crises we now face grow worse, we will have to revisit our assumptions on how much defense spending can be responsibly reduced.

We recognize the very tough budget pressures that exist on domestic discretionary accounts. But the debate there is over the effect of a hard freeze. The Defense Department would love to be facing that challenge. Defense cuts are already producing real hardship among unemployed aerospace workers in southern California, communities across the country affected by base closures, and career military personnel uncertain about their futures.

Where the army had an active force of 18 active divisions and 744,000 personnel in 1990 it will have been reduced to 10 divisions and 495,000 personnel by 1999. From a force of 546 ships and 590,000 personnel in 1990, the navy will find itself with 347 ships and 394,000 personnel by the end of the decade. The air force goes from 24 fighter wings and 545,000 personnel to 13 fighter wings and 390,000 personnel.

Active military manpower has declined by more than half a million, a 32% cut. There will be 330,000 fewer civilians working for the department of defense, a 29% reduction. Reserve component forces are undergoing a 20% cut in force structure. Many of us are concerned that the lower force levels will jeopardize our ability to carry out the strategy established in the bottom-up review, especially by the army.

After each major war the United States has allowed the preparedness of its military forces to lapse. Unfortunately, the Nation has frequently paid a high price in blood and treasure on the next occasion it committed men to battle.

Former Secretary of Defense Aspin was well aware of this cycle. Last May he declared, "there must be no doubt that preserving readiness is the cornerstone of our new defense strategy. The Clinton Administration and its defense team have made maintaining forces ready to fight the number one defense priority." At that time he appointed a readiness task force comprised of distinguished military leaders headed by former Army Chief of Staff General Edward C. "Shy" Meyer to help in that effort. They will issue their report this coming May.

Readiness is also Secretary of Defense William Perry's top priority. Earlier this month in describing the fiscal year 1995 defense budget he said "the President's budget increases spending for readiness, sustains current rates for flying hours and operations, and ensures that our military has what it needs to keep U.S. forces ready to fight."

Forces ready to fight must be fully manned, have the full complement of first-rate equipment, and enough supplies to do the job over the long haul. However, readiness today is diminished by the following:

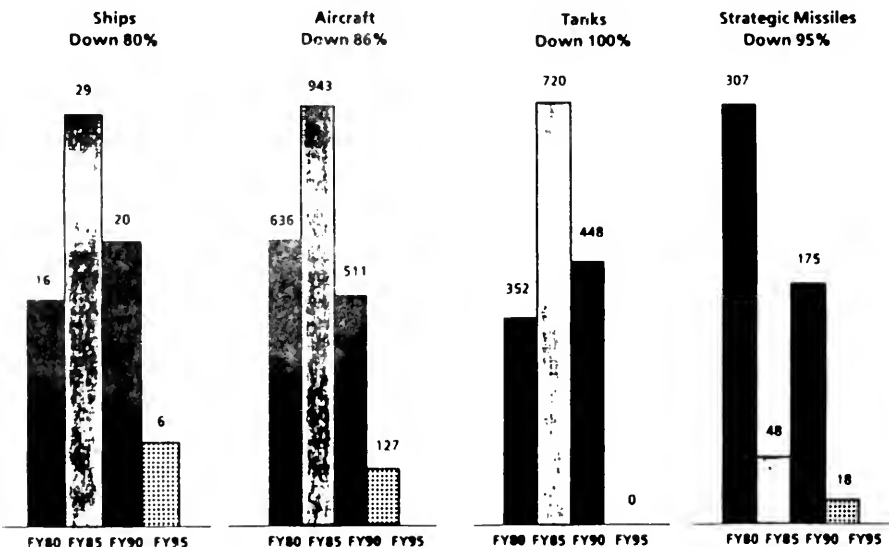
- Turbulence in personnel as units disband and individuals are rapidly reassigned; concerns among those in the military about their career prospects;
- Pay increases that do not match the inflation rate;
- Maintenance backlogs that have mounted since the end of Desert Storm almost three years ago;
- Prepositioned and war reserve stock levels still unreplenished since their consumption during Desert Shield/Storm;
- Munitions budgets that have declined by more than two-thirds since 1990; and
- Fast peacetime operational tempos as American military forces try to meet traditional and expanding commitments in Korea, Somalia, Iraq, Haiti, and Bosnia.

Some army and air force members are on their third tour in southwest Asia. This is hard on service personnel and on family members back home.

This combination of growing operational commitments, declining budgets, and fewer forces is a prescription for a return to the days of the hollow military of the late 1970s. We are alright at the moment, but the trends over the past few years have been in the wrong direction. If we hope to maintain readiness, the defense budget cannot take any further reductions. As the President said, "we must not cut defense further."

As he presented the FY 95 defense budget earlier this month, Secretary Perry made the point that force structure would shrink by 7% this fiscal year. There is an explicit strategy to sacrifice modernization to maintain readiness. The table on the following page gives you an idea of the reductions in weapons procurement that are planned for this year. As you can see these are substantial reductions.

HISTORICAL PROCUREMENT DATA



We can do this because we can live off the inventory we built up for the cold war. Yet as Secretary Perry noted earlier this week in testimony before the House Armed Services Committee, we cannot sustain these low levels of procurement for long if we hope to maintain a defense industrial base.

The Secretary hopes to make savings from reforming the acquisition system, the finance and accounting systems, and from additional base closures in order to increase procurement a few years from now. This will be a very difficult task.

We need to remind ourselves that, despite all the problems we have, America is the richest and most productive Nation in the world today. No other nation comes close in terms of economic output and none seems likely to overtake us for at least a generation, if then. We have both the ability and the resources to continue leading the free world. All we need is the will. Those who would pose a false choice between meeting our responsibilities abroad and meeting the needs of our people at home do our Nation a disservice. For the truth is that we either meet both responsibilities or we shall meet neither.

In the post-cold war era, leadership will not be easy. But the United States will have a leading role to play far into the twenty-first century. Now is the time to realize that taking the initiative is preferable to inaction, that leadership is preferable to self-doubt, that securing the gains democracy has made in the past decade is within our reach. We can do all this if we look upon the design of the future not as a threat but as a challenge.

"DEMOCRATS FOR A STRONG DEFENSE"

Sonny Montgomery, Glen Browder, Norm Dicks, Chet Edwards, Pete Geren, Jane Harman, Earl Hutto, Don Johnson, Martin Lancaster, Greg Laughlin, Marilyn Lloyd, Dave McCurdy, Jack Murtha, Solomon Ortiz, Pete Peterson, Gwen Pickett, Norm Sisisky, Ike Skelton, John Spratt, John Tanner, and Gene Taylor.

Chairman SABO. I thank the two of you for your testimony. You bring passion and significant knowledge to the subject. The committee clearly will consider carefully what you have to say as we deal with what are, frankly, tight discretionary limits.

Mr. DICKS. For 5 years. This is tough.

Chairman SABO. It is tough.

Mr. DICKS. Some of these young Members who think we haven't been doing anything ought to look at what has been done. This is tough business.

Chairman SABO. Through the 1980's discretionary spending has grown by \$20 billion a year. When you look at the President's budget, make sure you are looking at it in the same way we are technically.

There are two parts that relate to that number. One is this up-front number. However, to make their numbers match at the end, it is significant numbers in the allowance category, and—

Mr. DICKS. For management improvements, that kind of thing?

Chairman SABO. Procurement, which is substantially defense. So that they are broken out by agency in 1995 that are not in the future. But I think it is fair to estimate at least half of those come from defense, because that is where the bulk of procurement is.

So I just want you to be aware of that as you look at numbers because some of those numbers are not as high as some would indicate.

Let me ask one further question. The Senate is involved in very substantial debate on the balanced budget amendment, and we will be also, shortly.

Mr. DICKS. I am voting no.

Chairman SABO. I just—there is no way that if we adopt that amendment—clearly, one could do additional taxes. I don't think the political support is here in the Congress to do it. And if one uses revenues, that I suspect would be a small part of any change.

The balance would have to come from decreased expenditures. And there is no way discretionary spending avoids going down even substantially deeper than what is projected in the current budget agreement.

And I think if anyone assumes that all goes in the domestic side, that is not likely to occur either. So I would urge you to encourage your allies to take a look at the impact of that proposal.

Mr. SKELTON. Mr. Chairman, if I may comment very briefly on that. Assuming we have the firewall situation back up, I think that would protect the defense. After all, the first job of a government is to protect its people, and I think that the military or national security falls in that line. That is why I have been and am a proponent of the firewalls' legislation being reenacted.

Chairman SABO. Mr. Price.

Mr. PRICE. Just to follow up on that, the firewalls then would require that there be extraordinarily deep cuts in entitlements, Social Security, Medicare and so forth, and—on the domestic side—or increases in taxes, with considerable pressure put on those aspects of the budget.

Mr. SKELTON. I guess it was over a year ago, or about a year ago, several of us made additional recommendations on budget cuts. I think about half of them were looked at seriously and adopted by your subcommittee. But I think there is some room in that area.

Mr. DICKS. It seems to me that, eventually, we are going to have to do something in the entitlement area. I don't see how we can take what is now less than 50 percent of the budget, and make all the cuts there. That doesn't make any sense. At some point we are going to have to bite the bullet and do something such as the COLA minus one.

I have probably got more retirees in military, Social Security, than anyone in the Congress. But I think I can go out there and sell that until we got the budget back in balance because of the implications for defense and the rest of the budget.

People are for education and transportation. They don't want to see these things cut brutally. I think we have to put some balance and equity back into this proposition.

Mr. PRICE. I don't think there is any question. Anybody who looks at this problem for 5 minutes realizes what you say is true. That is where the money is. And various kinds of proposals are out there, some of them quite—

Mr. DICKS. We have played politics with this issue. As you well know, back in the early 1980's we took some advantage of it, and the other side took some advantage of it, and it became almost an untouchable.

I remember when Brock Adams was Chairman of the Budget Committee. He told me 1 year we were pretty close to getting to a balanced budget, and if we had just done a few things, we could have made it.

Now, about a year from now we are going to be in the same position, where if we just did a couple of things we could get pretty close to that budget balance. The country wants the budget back in balance. And I think we can sell it. But we are going to have to do it in a bipartisan way. Maybe this commission can give us the cover that is necessary to do what is required.

Mr. PRICE. The hope, of course, is that the health care—the resolution of the health care debate will also offer that kind of long-term improvement in our situation.

I know we have other witnesses waiting. I want to thank you both for this well-reasoned and helpful testimony. We do face tough decisions here, and it is very good to hear from you at this point.

Chairman SABO. Thank you.

The distinguished Chairman of the Science and Technology Committee, Mr. Brown.

STATEMENT OF HON. GEORGE E. BROWN, JR., A REPRESENTATIVE IN CONGRESS FROM THE STATE OF CALIFORNIA

Mr. BROWN. Thank you, Mr. Chairman, for this opportunity. I have a rather extended statement, and a shorter summary which I would like to go through, if I may.

Chairman SABO. We will put the entire statement in the record, Mr. Chairman.

Mr. BROWN. Mr. Chairman, this budget is a good news, bad news budget. The good news is that the President's economic plan and budget we passed last year are working and the deficit is less than it used to be, but the good news on deficit reduction heralds tough times ahead for the Nation's research and development investments.

In the aggregate, programs in the committee's jurisdiction—not all of which are R&D programs—grow less than inflation in the 1995 budget, less than overall outlays, less than total domestic discretionary outlays, less than defense R&D outlays, and less than health and human services R&D outlays.

Although some R&D programs did relatively well in the competition for funds in this year's budget, Federal outlays for R&D continue to represent a declining share of national income. And we as a Nation will continue to spend a smaller fraction of our Federal R&D budget on nondefense R&D than we did from the mid-1960's through 1980.

I have a chart accompanying my testimony that shows that the total Federal R&D will fall below 1 percent of gross domestic product for the first time since 1958. Now, you may say this is highly desirable. It shows we are getting more bang for the buck.

The fact is that we started from a point higher than any of our competitor nations. We are now at a point considerably lower. We are continuing to go down; they are continuing to go up. And this will exacerbate our national economic growth and balance of trade problems.

Figure 2 shows that nondefense Federal R&D, expressed as a share of total Federal R&D, has recovered from its mid-1980's trough when it went down to about 30 percent of the total R&D. It is now back up to about 44 percent. It remains below both the historical average of around a 50/50 split and the President's expressed goal of coming back to that balance between defense and nondefense Federal R&D spending.

Figure 3 shows that we are not going to achieve under the present budgetary outlook a schedule that would get us to the President's goal for raising nondefense R&D outlays up to \$36.6 billion in fiscal year 1998, as he expressed in his February, 1993,

blueprint on science and technology entitled, "Technology for America's Economic Growth, A New Direction to Build Economic Strength."

Of course, this is probably not the only area in which the President is not going to achieve his goal, but we consider this to be a matter of major significance, and we commend it to your attention.

Recent trends in Federal R&D spending are discouraging when we look at our own past efforts. They are also discouraging when we look at what our international competitors are doing. And they get even more discouraging when we look at the substantial decreases in private sector R&D spending.

Normally, the Government and the private sector each spend about half of the national investment—the private sector more on the commercial development, advanced development kind of things, the Federal Government more on the basic research and the part that goes between commercialization and research.

The National Science Foundation estimates that the United States spent 11 percent more in total R&D dollars—this is in comparison with our competitors—11 percent more in total R&D dollars in 1991 than Japan, West Germany and France combined. But when you take out the defense R&D, these three countries together spent 17 percent more than the United States in dollars.

But then we change those dollars to a percentage of gross domestic product which is a better measure of national effort that total dollars. The United States has fallen behind its major trading rivals—that is Germany and Japan—in total effort. That is defense and nondefense spending combined. And it ranks far below these two countries in national nondefense R&D effort, civilian R&D effort. They are growing; we are going down.

Frankly, Mr. Chairman, I see things getting worse, not better, as I look ahead to future budgets. The administration's budget projections show that the caps will force discretionary spending in fiscal year 1998 to its lowest level as a share of GDP since 1962.

The President had to cut about \$60 billion from last year's 1994 to 1998 discretionary spending requests to get under the caps. There is no room for waste or pork, but there is also no room for many worthwhile programs.

I am especially worried about the fate of science, space and technology programs, because their payoffs—no matter how valuable—tend to be longer term and intangible in the near term. This makes them particularly vulnerable to budget cutting efforts.

Unfortunately, the President's budget for NASA raises exactly these concerns. The President has proposed keeping spending flat for the next several years. And the simple fact is that the President's NASA request seldom gets enacted without the appropriators taking a large nick out of it.

In fact, we have chartered the relationship between the appropriation and the President's budget for the last several years, and it uniformly shows the President's budget has been cut between \$.5 billion and \$1 billion for NASA.

If this keeps happening, we face the very real prospect that, with a budget shrinking in purchasing power each year, science and advanced technology programs in NASA will be severely squeezed by

the funding requirements of the space station and the shuttle program.

I want to restate that. Under the current scenario of the President for level budgets, not factoring in any reductions by the Appropriations Committee, we will be squeezing a great deal out of the science and the advanced technology development programs in the NASA programs in order to maintain the commitment the President has made to the cooperative space station program with the Russians.

I find this situation to be personally unacceptable. As I have said many times, I do not want to finance big science projects out of other research and development programs. And I would prefer to cancel the space station now rather than see this happen.

I thank the committee for its time. The views and estimates that I have submitted, as I have indicated, contain a more detailed analysis showing that wise public investments in science and R&D are every bit as important as deficit reduction in raising the standard of living and improving the quality of life of the average American.

[The prepared statement of Hon. George E. Brown, Jr. Follows:]

PREPARED STATEMENT OF HON. GEORGE E. BROWN, JR., A REPRESENTATIVE IN CONGRESS FROM THE STATE OF CALIFORNIA AND CHAIRMAN, COMMITTEE ON SCIENCE, SPACE, AND TECHNOLOGY

Thank you, Mr. Chairman. It is a pleasure to appear before this committee to express my views on the FY 1995 Budget for R&D. The Views and Estimates of the Committee on Science, Space, and Technology accompany my testimony.

This is a "good news, bad news" budget. The good news is that the President's economic plan and the budget agreement we passed last year are working and the deficit is less serious a problem than it used to be. But I am very concerned that the good news on deficit reduction heralds tough times ahead for the nation's R&D investments.

In the aggregate, programs in the Committee's jurisdiction (not all of which are R&D programs) grow less than inflation in the 1995 budget, less than overall outlays, less than total domestic discretionary outlays, less than defense R&D outlays, and less than health and human services R&D outlays. Although some R&D programs did relatively well in the competition for funds in this year's budget, federal outlays for R&D continue to represent a declining share of national income. And we as a nation will continue to spend a smaller fraction of our federal R&D budget on nondefense R&D than we did from the mid-1960s through 1980.

Figure 1 accompanying my testimony shows that total Federal R&D will fall below 1 percent of Gross Domestic Product for the first time since 1958. Figure 2 shows that nondefense federal R&D expressed as a share of total federal R&D has recovered from its mid-1980s trough. But—at 44 percent—it remains below the President's expressed goal of a 50-50 split between defense and nondefense federal R&D spending. Figure 3 shows that we are falling behind a smooth schedule that would get us to the President's goal for raising nondefense R&D outlays to \$36.6 billion in FY 1998 as expressed in the Administration's February 1993 blueprint on science and technology, "Technology for America's Economic Growth, A New Direction to Build Economic Strength."

Recent trends in Federal R&D spending are discouraging when we look at our own past efforts. They are also discouraging when we look at what our international competitors are doing. They are even more discouraging when we look at substantial decreases in private sector R&D spending.

The National Science Foundation estimates that the United States spent 11 percent more in total R&D dollars (private, federal defense, and federal nondefense) in 1991 (the latest available estimate) than Japan, West Germany, and France combined. But when defense R&D is taken out, these three countries together spent 17 percent more than the United States.

Figure 4 in my testimony shows that, measured as a percentage of GDP, a better measure of national effort than total dollars spent, the United States has fallen behind its major trading rivals, Germany and Japan, in total effort (defense and

nondefense) and it ranks well below these countries in national nondefense R&D effort.

Frankly, Mr. Chairman, I see things getting worse, not better, as I look ahead to future budgets. The administration's budget projections show that the caps will force discretionary spending in FY 1998 to its lowest level as a share of GDP since 1962. The President had to cut about \$60 billion from last year's 1994-98 discretionary spending requests to get under the caps. There is no room for waste or pork, but there is no room for many worthwhile programs as well.

I am especially worried about the fate of science, space, and technology programs because their payoffs—no matter how valuable—tend to be longer term and intangible in the near term. This makes them particularly vulnerable to short-sighted budget-cutting efforts.

Unfortunately, the President's proposed budget for NASA raises exactly these concerns. The President has proposed keeping spending flat for the next several years. And the simple fact is that the President's NASA request seldom gets enacted without the appropriators taking a large nick out of it. If that keeps happening, we face the very real prospect that, with a budget shrinking in purchasing power each year, science and advanced technology programs in NASA will be severely squeezed by the funding requirements of the Space Station and the Shuttle program. I find this situation to be personally unacceptable, as I have said many times, and would prefer to cancel the Space Station now rather than see it happen.

I thank the committee for its time. The Views and Estimates submitted today contain a more detailed analysis showing that wise public investments in science and R&D are every bit as important as deficit reduction in raising the standard of living and improving the quality of life of the average American.

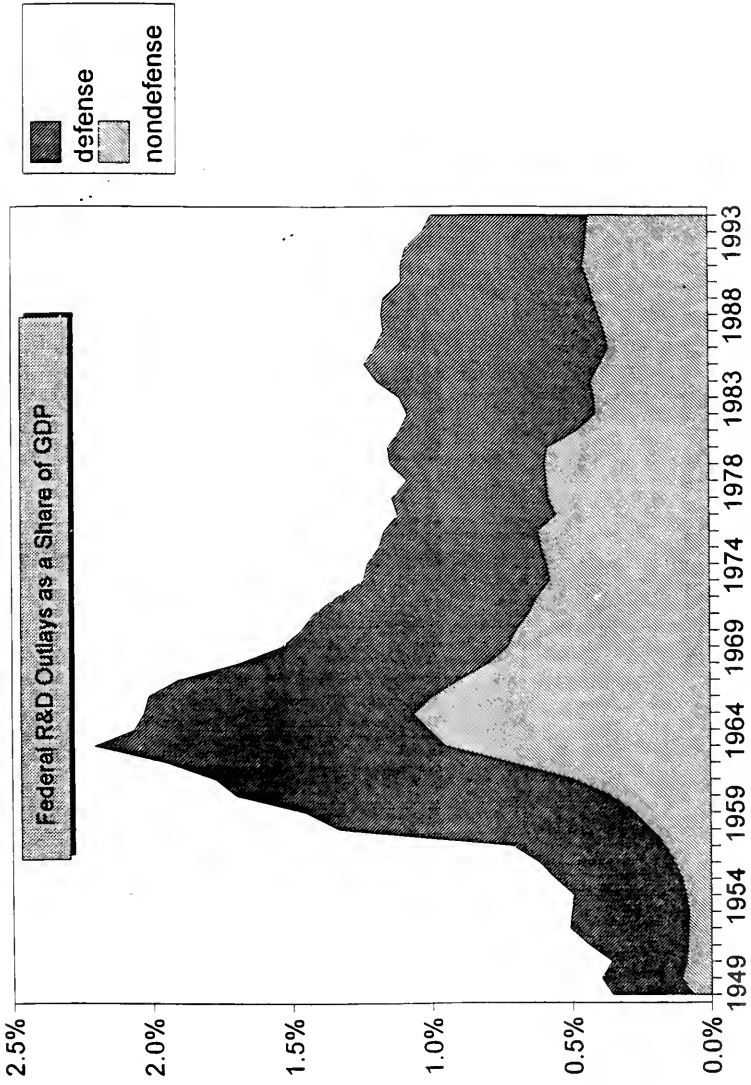


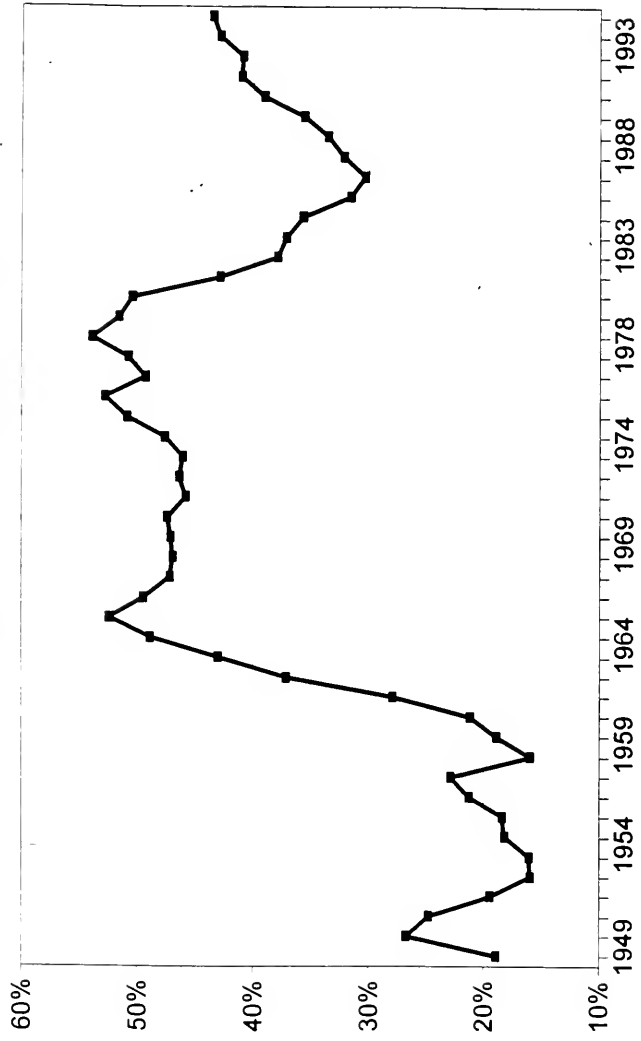
Figure 1

Source: Budget of the United States, FY 95, Historical Tables

Figure 2

Federal Nondefense Outlays R&D Share

(percent of total federal R&D)



Source: Budget of the United States, FY 95, Historical Tables

Figure 3
Federal Nondefense R&D Spending
 (billions of dollars)

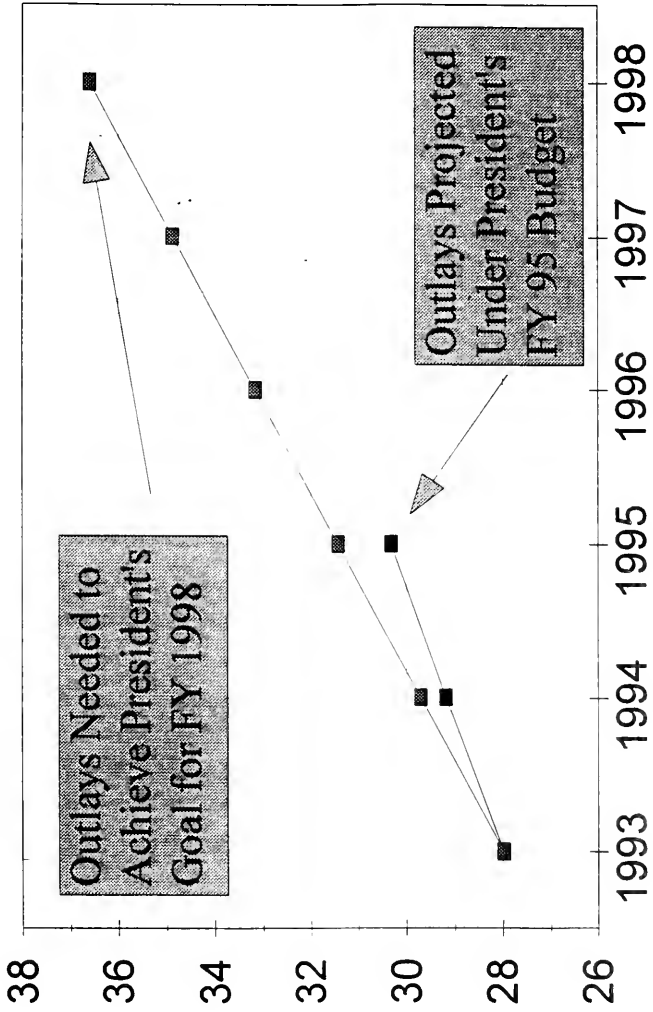
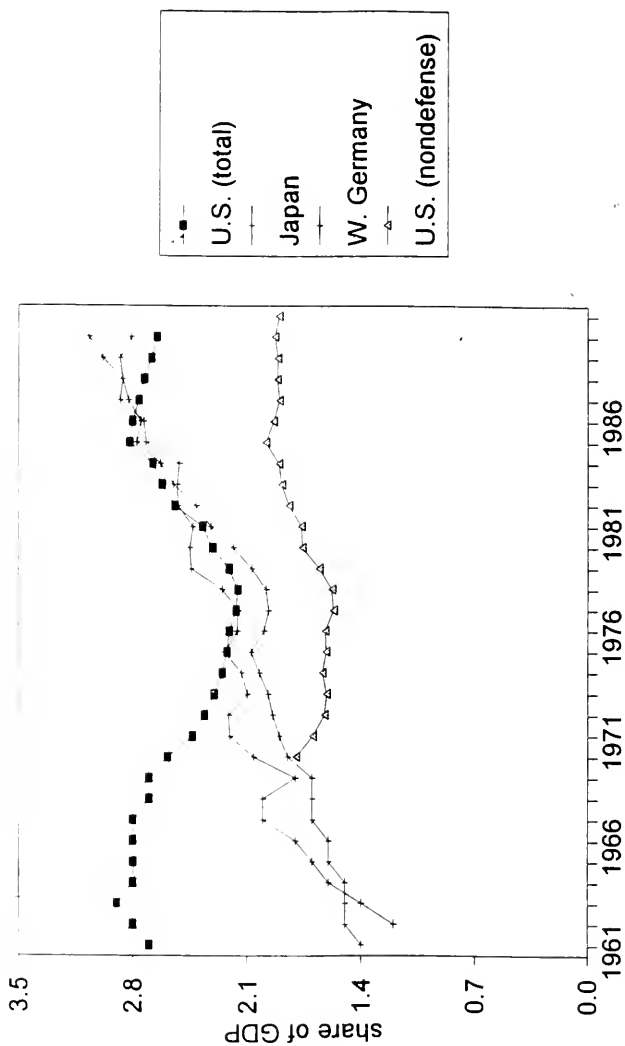


Figure 4
National Expenditures on R&D
share of national income



Source: National Science Foundation

Chairman SABO. I thank the Chairman for his testimony.

Let me ask sort of a broad question. We have people who would argue that the Federal Government plays no role in what happens in the economy and that we should just get out of it. Historically, what has been the role of Federal R&D in spurring innovation in the private sector and its impact on the private economy in this country?

Mr. BROWN. Different economists come to different conclusions about the importance of R&D in terms of economic growth and productivity. They all agree that somewhere in the neighborhood of half of economic growth results from investments in R&D. And, of course, in our society the bulk of those investments are made by the government, so that we can make a very strong case that continued increases in productivity and economic growth will not occur without these investments by the Federal Government. And every one of our competitive nations recognizes that.

If you look at an emerging nation like Taiwan, their rate of growth in government R&D expenditures is on a sharply rising curve. Japan's was for 25 years until it surpassed ours. West Germany's was. If we don't recognize that, we are going to suffer serious trouble down the road.

Chairman SABO. Mr. Price.

Mr. PRICE [presiding]. Thank you, Mr. Chairman.

I am technically struck, Mr. Brown, by the trade-off you proposed in the closing portion of your testimony between the continuing funding of the space station and other R&D projects at NASA. That trade-off I assume you believe is very real. Would you care to elaborate on the direction you expect it to take, under these budget restraints?

Mr. BROWN. The first week I took over as Chairman of the committee we had a report called the Augustine Report as to what the future of NASA was, what the funding envelope would be required to carry out its various programs and so forth. And that report set forth the priorities that NASA ought to be following.

And the first priority is the continued support of science. And the second priority is the continued support of advanced technology development to benefit our aeronautics industry, civilian aviation and our burgeoning space industry, which continues to grow at a remarkable pace, even though we are underinvesting in the advanced technologies that we need.

The space station ranks at least third in priority, not higher than that, and if it comes to the point where you have to cannibalize the first two priorities to support the space station, you do not have a balanced space program, and it will be counterproductive.

Mr. PRICE. Once more, what are the first two priorities and what is the order of magnitude of our expenditures?

Mr. BROWN. Space, science—approximately the same as what we are spending on the space station—and aeronautics and advanced space technology for the development of future generations of both commercial aircraft and space technologies of various kinds. These are the kinds of things that produce incalculable benefits to the Nation in terms of both future commercial development and in terms of laying the scientific base for other kinds of development.

Mr. PRICE. And the claim that is sometimes made that these trade-offs don't exist, that we can have it all, those are increasingly hard to defend?

Mr. BROWN. The fact is that we are at the point now where we are already not able to continue with many of the science programs that are in the pipeline. The fact is that we are not able to afford the investments, for example, for new wind tunnels, advanced wind tunnels, to help us design the future supersonic or hypersonic aircraft that the industry needs. We do not have the money to do these things.

The fact is, the President has made a commitment for foreign policy reasons to the cooperative space station with the Russians involved. That by, I understand, agreement with the Appropriations Committee is—the President is going to recommend and the appropriators are going to appropriate a steady \$2 billion, roughly, for the next 5 years. That is a given.

If the budget shrinks, as it is obviously going to shrink, the President proposes no growth. The Appropriations Committee, according to the best information we have, is proposing about a 5 to 7 percent decline every year. There is not enough money to do all these things.

And, as I said—I am trying to be as polite as possible—I find this unacceptable.

Mr. PRICE. Thank you.

Chairman SABO. Mr. Chairman, thank you. Mr. Schaefer.

STATEMENT OF HON. DAN SCHAEFER, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF COLORADO

Mr. SCHAEFER. I certainly appreciate you, Mr. Chairman, getting the Members of the House of Representatives to talk about budget issues, which I know you have a tough time dealing with every year.

But, as you know, the other body is in the middle of a debate on the balanced budget amendment, and a clear majority—if not the required two-thirds—of both Houses is supporting a balanced budget amendment.

But, more importantly, poll after poll shows American taxpayers do support one. Clearly, there is a broad consensus in the Nation that Congress put an end to decades of deficit spending.

Members of this committee and many others, however, have been quite eloquent about the difficulty of actually achieving a balanced budget if we should adopt an amendment. There are, indeed, many hard choices to be made, and passing a balanced budget amendment is only the first step if that should come to be. But we are seriously thinking about sparing future generations the burden of repaying our debt, and these choice must be made and must be made very quickly. We are talking about a national debt of \$4.5 trillion at this point.

Many Members of Congress and outside groups have advanced partial and comprehensive plans to reduce the deficit. Some of these plans simply call for across-the-board spending reductions and set lower spending caps, without spelling out the policy changes necessary to achieve these lower caps. A few have been—

a few have made lists of the necessary spending cuts, but then leave it at that.

What no one in or out of Congress has done before is conduct a comprehensive survey of all those specific spending cut ideas and compile them into an actual legislative package that can achieve a balanced budget.

Today, I am pleased to announce that I have done basically that. Next week, in cooperation with Congressman Tim Penny, I will introduce an actual bill that lays out program by program, line by line, how to all but eliminate the deficit.

The Fiscal Responsibility Act, the product of nearly a year's work, contains over 150 specific narrow spending cuts. When introduced, the package will contain at least \$500 billion in specific spending cuts, not including what we will be saving on interest on the national debt. And this is over a 5-year period.

Mr. Chairman, no one is spared in this particular package—from agricultural subsidies to transportation, defense to Congress, and, yes, even to sensitive entitlement programs such as the COLAs. And this was even mentioned by Representative Dicks a little bit earlier. Everybody is asked to sacrifice a little today to avoid the inevitable need to inflict much more severe financial pain tomorrow if we do not solve this impending crisis.

I am the first to say that there are, indeed, many hard choices in this particular legislation, and if I were faced with them on an up or down vote singly probably would very well oppose them. But, as a package, the Schaefer-Penny package is fair, broad and does the job. Above all, it is necessary if we are to follow the cries of the American taxpayers to pass a balanced budget amendment and cut spending first.

Mr. Chairman, I have included my testimony—with my testimony—a list of 150 provisions that will comprise the Schaefer-Penny bill. I encourage this committee to take a hard look at this package when writing the budget for next year.

I know many in this committee will disagree with many of my provisions, but if you don't like my package, come up with one of your own. Just realize that this desperate crisis must be solved and that my plan and Mr. Penny's plan proves that it can be done without the pain claimed by opponents of a balanced budget amendment.

Particularly if this balanced budget amendment does pass, we are then going to have to figure out a way to get to this point somehow or another.

Mr. Chairman, I really thank you very much for this opportunity to come in here and speak to you today and would ask that you do take a look at some of these particular cuts that we are proposing, again, over a 5-year period and not overnight and knowing you can't do this thing overnight.

I thank you, Mr. Chairman.

[The prepared statement of Hon. Dan Schaefer follows:]

PREPARED STATEMENT OF HON. DAN SCHAEFER, A REPRESENTATIVE IN CONGRESS
FROM THE STATE OF COLORADO

Mr. Chairman, I thank you for providing Members of the House of Representatives a chance to express their views on next year's budget.

As you all know, the other body is in the middle of a debate over the balanced budget amendment. A clear majority—if not the required $\frac{2}{3}$ majority—of both houses support a balanced budget amendment. Even more importantly, poll after poll shows the American taxpayers support one. Clearly, there is broad consensus in this nation that Congress put an end to decades of deficit spending.

Members of this committee and many others, however, have been quite eloquent about the difficulty of actually achieving a balanced budget. There are, indeed, many “hard choices” to be made, and passing a balanced budget amendment is only the first step. But, if we are serious about sparing future generations the burden of repaying our debt, those choices must be made—and quickly.

Many Members of Congress and outside groups have advanced partial and comprehensive plans to reduce the deficit. Some of the plans simply call for across-the-board spending reductions and set lower spending caps, without spelling out the policy changes necessary to achieve those lower caps. A few have made lists of the necessary spending cuts, but then leave it at that.

What no one in or out of Congress has ever done before is conduct a comprehensive survey of all those specific spending cut ideas and compile them into an actual legislative package that can achieve a balanced budget.

Today, I am pleased to announce that I have done just that. Next week, in cooperation with Congressman Tim Penny, I will introduce an actual bill that lays out, program by program, line by line, how to all but eliminate the deficit. The Fiscal Responsibility Act, the product of nearly a year's work, contains over 150 specific, narrow, spending cuts. When introduced, the package will contain at least \$500 billion in specific spending cuts, not including savings from interest on the debt.

Mr. Chairman, no one is spared in this package—from agricultural subsidies, to transportation, to defense, to Congress and, yes, even sensitive entitlement programs and COLAs. Everybody is asked to sacrifice a little today to avoid the inevitable need to inflict much more severe financial pain tomorrow if we do not solve this crisis.

I am the first to say that there are, indeed, many “hard choices” in this package. Faced with an up or down vote on many of them, Congressman Penny and I would very well oppose them. But, as a package, the Schaefer/Penny package is fair, broad and does the job. Above all, it is necessary if we are to follow the cries of American taxpayers to pass a balanced budget amendment and “Cut Spending First.”

Mr. Chairman, I have included with my testimony a list of the 150 provisions that will comprise the Schaefer/Penny bill. I encourage this committee to take a hard look at this package when writing the budget for next year. I know many on this committee will disagree with some provisions. As I have always said, however, if you do not like my package, come up with your own. Just realize that this deficit crisis must be solved, and my package proves that it can be done without the unacceptable pain claimed by opponents of the balanced budget amendment.

Thank you again, Mr. Chairman, for the opportunity to testify today.

H.R. ____ : The Fiscal Responsibility Act of 1994

Introduced by Rep. Dan Schaefer (R-Colo.)

Original Cosponsor: Rep. Tim Penny (D-Minn.)

February 25, 1994

Page 1

Five Year Savings (\$Millions)

Agriculture

AGR 1	70
Eliminate tobacco price support program	
AGR 2	900
Eliminate the Market Promotion Program	
AGR 3	3,950
Merge and cut by 50 percent agricultural research and extension activities	
AGR 4	65
Reduce USDA spending for export marketing and international activities by one-third	
AGR 5	500
Streamline the operation of farm agencies' field offices	
AGR 6	3,300
Terminate the Agricultural Credit Insurance Fund	
AGR 7	2,010
Scale back the Sect 515 rural renting housing assistance program and increase developers' interest rate to 5 percent	
AGR 8	3,640
Scale back the housing loan program for rural homeowners	
AGR 9	1,380
Eliminate certain rural development programs	
AGR 10	3,150
Eliminate the Export Enhancement Program	
AGR 11	2,400
End the Federal Crop Insurance Program and replace it with standing authority for disaster assistance	
AGR 12	320
Require repayment of commodity loans in marketing loan programs	
AGR 13	11,200
Reduce deficiency payment to farmers participating in USDA commodity programs by lowering target prices 3 percent per year	
AGR 14	1,450
Eliminate the 0/92 and 50/92 programs for participating in USDA commodity programs	

AGR 15	3,900
Raise the proportion of each farmers base acreage ineligible for deficiency payments from 15 percent to 25 percent	
AGR 16	1,600
Reduce loan guarantees made under the USDA's export credit programs and eliminate loans to especially risky borrowers	
AGR 17	9,300
Eliminate the Conservation Reserve Program	
AGR 18	1,500
Tighten standards on new FmHA loans and speed collections of delinquent loans	
AGR 19	1,040
End federal farm subsidies for individuals with taxable incomes over \$120,000 and corporations with incomes over \$5 million.	
AGR 20	2,600
End federal subsidy for rice	
AGR 21	4,220
End federal subsidy for cotton	
AGR 22	25
End federal subsidy for peanuts	
SUBTOTAL FOR Agriculture	58,520

Arts and Humanities	
ART 1	2,600
Reduce by half funding for arts and humanities	
SUBTOTAL FOR Arts and Humanities	2,600

Civil Service	
CIV 1	540
Change vacation leave time and overtime practices for certain managers and supervisors	
CIV 2	11,900
Limit growth of federal employees salaries and benefits to the rate of inflation	
SUBTOTAL FOR Civil Service	12,440

Cost-of-Living Adjustment	
COL 1	66,478
Freeze all COLAs every other year for five years, subject to inflation safeguards	
SUBTOTAL FOR Cost-of-Living Adjustment	66,478

Defense

DEF 1	3,040
Terminate production of D5 missiles after 1994	
DEF 2	1,700
Reduce operating tempo of ballistic missile submarines	
DEF 3	4,720
Reduce spending on intelligence activities by 5 percent	
DEF 4	2,350
Cancel the Follow-on Early Warning System	
DEF 5	6,610
Reduce the number of Navy escort ships	
DEF 6	2,790
Reduce procurement of DD-51 destroyers	
DEF 7	320
Cancel procurement of additional TAGOS ships	
DEF 8	170
Cancel procurement of the MHC(V)	
DEF 9	7,750
Eliminate four Army light divisions	
DEF 10	980
Cancel the Army's tank upgrade program	
DEF 11	6,957
Cap production of the C-17 airlift aircraft at 60 planes	
DEF 12	1,474
Reduce funding for Independent R&D	
DEF 13	650
Cancel the National Aerospace Plane	
DEF 14	440
Cancel funding for SEMATECH	
DEF 15	2,850
Use early retirement to reduce the number of military personnel	
DEF 16	1,400
Make additional reductions in the officer corps	
DEF 17	450
Reduce drills for noncombat reserve units	

DEF 18	1,400
Deny unemployment compensation to service members who voluntarily leave military service	

DEF 19	11,420
Reduce and reshape DOD's civilian work force	

DEF 20	1,250
Consolidate and downsize the recruiting establishment	

DEF 21	1,760
Assign additional peacetime duties to military personnel	

DEF 22	1,810
Adopt short, unaccompanied tours for Europe	

DEF 23	2,400
Sell the Naval Petroleum Reserves, using the proceeds to fill the Strategic Petroleum Reserve.	

SUBTOTAL FOR Defense	64,691
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Economic Development

DEV 1	600
End funding for non-energy related TVA activities	

DEV 2	530
Eliminate the Appalachian Regional Commission	

DEV 3	870
End funding for the Economic Development Administration	

DEV 4	49
End Minority Business Dev Agency subsidies for individuals with taxable incomes over \$120,000 and corporations with incomes over \$5 million.	

DEV 5	5
End Disaster Relief Payments subsidies for individuals with taxable incomes over \$120,000 and corporations with incomes over \$5 million.	

SUBTOTAL FOR Economic Development	2,054
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Education

EDU 1	190
Eliminate ancillary vocational education programs	

EDU 2	315
Eliminate State Student Incentive Grants	

EDU 3	1,150
Eliminate untargated funding for mathematics and science education	

EDU 4	2,900
Eliminate federal funding for campus based student aid and direct half of the savings to Pell Grants	

EDU 5	1,700
Eliminate the Senior Community Service Employment program	

EDU 6	1,000
Consolidate social service programs and reduce their budgets by 5 percent	

EDU 7	2,900
Increase targeting of child nutrition subsidies	

SUBTOTAL FOR Education	10,155
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Energy and Resources

ENG 1	300
Eliminate further funding for the Clean Coal Technology Program	

SUBTOTAL FOR Energy and Resources	300
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Government Operations

GOV 1	100
Reclaim unclaimed federal assets in holding institutions by paying private finders from recovered funds	

GOV 2	9,180
Repeal the Davis-Bacon Act	

GOV 3	1,000
Reinstate a cap on overhead costs charged to university research and development grants.	

GOV 4	6,000
Sell most of the government's 1,200 civilian aircraft	

GOV 5	9,250
Sell most of the government's 340,000 non-tactical, non-postal vehicles	

GOV 6	2,500
Cut federal contracting costs by repealing the Service Contract Act of 1965	

GOV 7	26,600
Freeze government overhead expenses for five years	

GOV 8	2,910
Place a moratorium on construction and acquisition of new federal buildings	

SUBTOTAL FOR Government Operations	57,540
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Health Care

HEA 1	4,900
Reduce funding for research supported by National Institutes of Health by 10 percent	

HEA 2	3,900
Reduce Medicare's payments for the indirect costs of patient care that are related to hospital's teaching programs	

HEA 3	4,900
Continue Medicare's transition to prospective rates for facility costs in hospital outpatient departments	
HEA 4	7,850
Collect 20 coinsurance on clinical laboratory services under Medicare	
HEA 5	2,050
Eliminate Medicare payments to hospitals for enrollees' bad debts	
HEA 6	5,023
Increase the premium for physicians' services under Medicare to 30 percent of program costs	
HEA 7	970
Eliminate most Public Health Service subsidy programs for health profession education	
SUBTOTAL FOR Health Care	29,593

Housing

HOU 1	14,200
Eliminate Community Development Block Grants	
HOU 2	3,650
Reduce federal rent subsidies for Section 8 housing	
HOU 3	1,450
Reduce federal public housing operating subsidies	
HOU 4	5,700
Freeze rental assistance commitments	
HOU 5	360
Shift Sect 202 and 811 housing assistance from new construction to vouchers	
HOU 6	610
Shift public housing assistance from new construction to vouchers	
HOU 7	990
Eliminate special-purpose HUD grants	
HOU 8	1,150
Modify fee structure for local and state agencies that administer federal housing programs	
HOU 9	4,780
Reduce FHA losses by improving underwriting, monitoring and enforcement efforts in single- and multi-family housing programs	
HOU 10	2,000
Phase-out Government National Mortgage Association (GNMA) over five years	
HOU 11	7,250
Improve Fair Market Value formula for Section 8 Rental Assistance Payments Program	

HOU 12	325
Raise from 97 to 98 percent the threshold occupancy rate at which subsidies are calculated and allow HUD to enforce that threshold rule	
HOU 13	850
Eliminate the HUD Utility Adjustment Payment Program	
HOU 14	2,050
Require competitive bidding for all Comprehensive Improvement Assistance Program and create performance-based criteria for further awards	
HOU 15	2,000
Reform and cut Sect 221(d)(3) and Sect 236 subsidized loans to developers	
HOU 16	500
Eliminate funding for Sect 8 vouchers on dwellings not meeting HUD's Housing Quality Standards	
HOU 17	1,645
Use IRS data to verify income of subsidized housing applicants	
SUBTOTAL FOR Housing	49,510

Interior

INT 1	1,720
Sell-off the national helium reserves	
INT 2	1,500
Place a five-year moratorium on the acquisition of additional federal lands	
SUBTOTAL FOR Interior	3,220

International

ITL 1	2,215
Limit U.S. contributions to the United Nations	
ITL 2	6,250
Eliminate new contribution to the World Bank's International Development Association	
ITL 3	2,000
Reduce security assistance to foreign nations	
ITL 4	1,820
Reduce development assistance administered by AID	
ITL 5	5,000
Return to the Treasury any foreign economic assistance funds not expended in three years after obligation	
ITL 6	5,550
Phase out the Economic Support Fund, which provides aid to Israel, Egypt and others	
SUBTOTAL FOR International	22,835

Justice

JUS 1	68
Terminate State Justice Institute	
JUS 2	1,800
Reduce the federal matching rate in the Child Support Enforcement program	
SUBTOTAL FOR Justice	1,868

Legislative Branch

LEG 1	100
Reduce congressional franking expenses by 50 percent	
LEG 2	131
Eliminate Joint Committees	
LEG 3	495
Reduce GAO funding by 25 percent	
LEG 4	1
Eliminate funding granted to former Speakers to finish their business after leaving office.	
LEG 5	115
Reduce maximum number of full time personal staff from 18 to 16.	
LEG 6	90
Reduce committee staff funding by 25 percent	
LEG 7	8
Reduce Member's salaries by 26 percent	
LEG 8	105
Eliminate the Congressional Office of Technology Assessment	
LEG 9	11
Reduce Congressional Budget Office funding by 10 percent	
LEG 10	50
Reduce Architect of the Capitol funding by 10 percent	
LEG 11	*
Reduce congressional pensions and limit pensions to maximum earned in office	
SUBTOTAL FOR	1,106

Science

SCI 1	500
Sell the NOAA fleet of sea vessels to the private sector and contract with the buyers for services	
SCI 2	345
Terminate the Coastal Zone Management Grants and the National Sea Grants College programs, administered by NOAA	

SCI 3	199
End NIST grants for individuals with taxable incomes over \$120,000 and corporations with incomes over \$5 million.	
SUBTOTAL FOR Science	1,044

Small Business

SMB 1	2,900
Phase out Small Business Administration loans and loan guarantees over 5 years	
SUBTOTAL FOR Small Business	2,900

Space

SPA 1	1,250
Cancel a spacecraft development project in NASA's space science and applications program	
SPA 2	10,400
Cancel the NASA space station program	
SUBTOTAL FOR Space	11,650

Social Security

SS- 1	1,800
Eliminate Social Security benefits for children of retirees aged 62-64	
SS- 2	150
Consider veterans' compensation when determining SSDI payments	
SUBTOTAL FOR Social Security	1,950

Transportation

TRA 1	150
Prohibit expenditure of federal funds on metric system highway signing	
TRA 2	6,250
Reduce federal aid for mass transit	
TRA 3	145
Eliminate regulation of motor carriers and abolish the Interstate Commerce Commission	
TRA 4	4,300
Eliminate funding for highway demonstration projects	
TRA 5	8,600
Limit federal highway spending to the amount brought in by motor vehicle fuel taxes	
TRA 6	180
Terminate the Essential Air Service program	
TRA 7	2,518
End federal subsidies for under-used AMTRAK routes	

TRA 8	1,663
Reduce airport grants-in-aid by 25 percent	

SUBTOTAL FOR Transportation	23,806
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Trade

TRD 1	3,340
Eliminate P.L. 480 Title I sales and Title III grants	

TRD 2	900
Reduce Export-Import Bank's credit assistance	

TRD 3	410
Eliminate the US Travel and Tourism Administration	

TRO 4	1,080
End the Trade Adjustment Assistance program	

TRD 5	6,000
End federal export enhancement bonuses for individuals with taxable incomes over \$120,000 and corporations with incomes over \$5 million.	

TRD 6	130
End federal Int'l Trade Admin. subsidies for individuals with taxable incomes over \$120,000 and corporations with incomes over \$5 million.	

SUBTOTAL FOR Trade	11,860
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Veterans

VET 1	1,100
Close or convert inefficient or underused facilities in hospitals	

VET 2	2,250
Promote more efficient management and delivery of health care for veterans	

VET 3	95
Prohibit major construction projects when health care could be purchased	

VET 4	140
Eliminate sunset date for OBRA 90 verify income reported for pension purposes provision	

VET 5	270
Eliminate sunset date for OBRA 90 third party cost recovery provision	

SUBTOTAL FOR Veterans	3,855
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Welfare/Income Security

WEL 1		380	
Limit growth of foster care administration costs to 10 percent a year			
WEL 2		5,310	
Reduce the matching rate for administrative costs in AFDC, Medicaid and food stamps			
WEL 3		960	
Reduce from \$20 to \$15 the exclusion from income in SSI			
WEL 4		27,000	
Prohibit unemployment and welfare benefits to illegal aliens			
WEL 5		350	
Eliminate small food stamp benefits			
WEL 6		1,650	
End federal unemployment subsidies for individuals with taxable incomes over \$120,000.			
WEL 7		130	
Require states to reimburse the federal government for food stamp overpayment errors caused by the states.			
WEL 8		5,700	
Reform child nutrition programs to end middle and high-income subsidies			
WEL 9		4,600	
Require a standard two week waiting period for unemployment benefits nationwide			
SUBTOTAL FOR	Welfare/Income Security	46,080	
=====			
TOTALS	Number of cuts = 151	486,055	**

* Awaiting Estimate

** Total does not reflect savings from reduced interest payments.

Chairman SABO. I thank you for your testimony. I also thank you for the honesty of your proposal.

I think Members in the next few weeks would do well to look at your proposal so they know the impact of what they are voting for. And—

Mr. SCHAEFER. What we have tried to do is make sure no one is left out.

Chairman SABO. I think people need to have that understanding. I find so many people who are in general for doing great things, but everything is exempt. And the world doesn't work that way.

Mr. SCHAEFER. Yes. And, as I say, if I had to do it up or down on single votes, I probably would not support some of these cuts. But if you do it in a whole package and say, hey—

Chairman SABO. There are other issues involved, the economic impact of a variety of others which one has to deal with, with what you are suggesting. But I do commend you and Mr. Penny for what has been incredible hard work in producing this. I hope you circulate it to all the Members of the House and of the Senate.

Mr. SCHAEFER. Thank you very much, sir.

Chairman SABO. Mr. Price.

Mr. PRICE. I also want to thank you for your testimony here today. So often when we are asked to vote on these budget proposals, as, unfortunately, in the Penny-Kasich amendment of last fall, we are given goals but no specifics—or certainly not enough specifics to get us to the goals. And just glancing through your proposal here today, it appears that you have added a good number of specifics, and I commend you for being straightforward in that respect.

Just a couple of questions on those.

In the defense area—you were here earlier when we heard our colleagues, Mr. Dicks and Mr. Skeleton, talk about the perils of reducing defense spending further. Am I reading this chart correctly in concluding that you would like to take defense over the next 5 years below the President's proposal, below the Bottom-Up Review to the tune of almost \$65 billion?

Mr. SCHAEFER. Yes, sir. We have looked at—and I have been a strong proponent of defense in the past, and we have went through every possible program that we could see where we could do some changing. And you are correct, sir, that it comes to \$64.691 billion over a period of time. And, of course, a large portion of this being in the civilian work force, the way that we would reshape that. And we will be happy to get you the details on how we come up with this particular number.

And I, for one—all you have to do is look at my past record on voting for defense spending. I am very much of a hawk when it comes to this.

But I also realize that if we do not do something over a period of 3 or 4 years to approach what I am coming to see as a catastrophe for this country with a \$4.5 trillion national debt, that we can't begin to get to it until we zero the deficit out, there won't be any need for defense because this country will be bankrupt.

It was brought out about the mandatory spending. You gentlemen know probably much better than I, because you were on this particular committee, but 70 percent of our budget now is in the mandatory spending area. And if we don't start tackling that and

get at that, how much more can you gut on discretionary? And much of this is in mandatory. It is proportionate to any discretionary cuts that we are talking about.

So if we have a bankrupt country, no defense in the world is going to be worth it.

Mr. PRICE. Your proposal appears to be quite candid in acknowledging that entitlements are where the real money is. And you are proposing, as I read it, a freeze in Social Security, cost of living adjustments every other year?

Mr. SCHAEFER. Every other year. It is not only on Social Security but it is on the retired Federal workers. It is on military. It is every other year there will be a freeze on COLAs. Three out of the 5, they will get a COLA, but 2 of the 5 they will not.

Mr. PRICE. Certainly in the health care area expenditures will have to be considered, as you suggest, not in isolation but in the context of broader proposals for health care reform. A number of those savings are going to have to be achieved one way or another but, hopefully, in a process that helps us improve the quality of health care delivery to the people.

Thank you, Mr. Chairman.

Chairman SABO. Thank you.

Congressman Visclosky.

STATEMENT OF HON. PETE VISCLOSKY, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF INDIANA

Mr. VISCLOSKY. Mr. Chairman, I have a letter that you may not have from the Chief of Police, Lake County Sheriff's Department.

Mr. Chairman, I am proud of the work you, Mr. Price and other members of the committee have done and look forward to working with you on the fiscal 1995 budget to ensure that next year will represent the third year in a row that we have seen a decline in the deficit.

Picking up on some of the themes that have been touched on earlier, I would be remiss if I did not advise both of you gentlemen that I do support strongly and am committed to dealing with the entitlement side of the budget. I don't think, taking up the conversations that have taken place today, that we will reach a balanced budget, that we can make the investments necessary to ensure a strong, vital economy, unless we do that.

Whether or not we will be able to achieve that goal and that pursuit in 1995 or whether it will have to wait until fiscal 1996 remains to be seen. But I would at least want to advise both of you gentlemen that I would be committed in that regard.

I am not here to ask for more money for a program but simply to make sure that people understand there are some programs out there that do really work and that as we work through the 1995 budget and look at the cuts the President has recommended that we maintain flexibility so that programs that have worked are at least able to continue to compete for the dollars that are left.

Specifically, I want to talk about the Byrne anti-drug abuse grant program that earlier Mr. Mazzoli also touched on relative to the State of Kentucky. We fund the Lake County Drug Task Force in the congressional district I represent.

While the administration's budget for 1995 zeros out the Byrne program formula grant dollars, it also includes an increase of more than 300 percent in assistance to State and local law enforcement. Clearly, this increased funding level makes it possible to continue aid to programs that work.

However, the specific language in the President's budget raises concern that programs such as the Lake County Drug Task Force will have to close its doors.

On the afternoon of Tuesday, August 17th, of last year, the Lake County Drug Task Force raided a home in Indiana and seized 176 pounds of cocaine. It was the largest cocaine seizure in Indiana history.

This past Sunday, February 20th, the task force, working in conjunction with other local and Federal law enforcement industries, seized 131 pounds of marijuana in Michigan. Both procedures were the result of lengthy investigations.

The success of the drug task force and others like it across the country should be gratifying to the Congress and other committees as a whole because it is the use of Federal dollars that has provided the money necessary.

I represent the city of Gary, Indiana, in my district, and both of you may be familiar with the fact that Gary, Indiana, this past year has had the highest murder per capita rate in the country, much of it fueled from drug trade and drug abuse. It is recognized in the President's budget, the need for the 300 percent increase in funding for State and local law enforcement. However, it is tragically unclear whether the Lake County Drug Task Force and others like it will receive the funding or even be eligible for funding.

It would be a tragedy if bureaucratic semantics cost the Lake County Drug Task Force the Federal funding to fight drugs and crime. Shutting down a program that works would also add fuel to the cynical fire that government can't do anything right.

I feel it safe to assume the level of success I am familiar with in my portion of the State of Indiana has been achieved by other programs, again, one referred to by Mr. Mazzoli earlier, across the Nation. It is extremely important that we continue to fund the programs that put our tax dollars in the hands of the people who are on the front lines.

Mr. Chairman, Mr. Price, thank you very much.

[The prepared statement of Hon. Peter J. Visclosky follows:]

PREPARED STATEMENT OF HON. PETER J. VISCLOSKY, A REPRESENTATIVE IN
CONGRESS FROM THE STATE OF INDIANA

Mr. Chairman, I would like to thank you for the opportunity to testify before the committee. I'm especially pleased with the real cuts in this budget that build on the fiscal responsibility of our work last session.

I'm not here today to ask for more money or a new program, but to ensure that an excellent local program, which has made a real difference in the quality of life in Northwest Indiana, does not slip through the cracks of the Clinton Budget.

One of the 115 programs that the Clinton Budget has listed for elimination is the Byrne anti-drug abuse grants, which fund the Lake County Drug Task Force in the congressional district I represent.

While the Administration's fiscal year 1995 budget zeros out the Byrne program's formula grant dollars, it also includes an increase of more than 300% in assistance to state and local law enforcement. Clearly, this increased funding level makes it possible to increase aid to the programs that work. However, the specific language

in the President's budget raises concern that programs like the Lake County Drug Task Force will have to close its doors in spite of its proven success.

On the afternoon of Tuesday, August 17, 1993, the Lake County Drug Task Force raided a home in Dyer, Indiana and seized 176 pounds of cocaine with an estimated street value of \$15 million. This is the largest cocaine seizure in Indiana history. Just this past Sunday, February 20, the Drug Task Force working in conjunction with other local and federal law enforcement agencies seized 3,100 pounds of marijuana in Michigan. Both seizures were the result of lengthy investigations.

The success of the Drug Task Force is personally gratifying to me since I know its members. The success of the Drug Task Force and others like it across the country should be gratifying to Congress as a whole because it is the Congressional appropriation of federal dollars through the Bureau of Justice Assistance that provides the money to fund its vital activities.

This is a program that works. These are tax dollars that are well spent and improve the quality of life in Northwest Indiana where the largest city, Gary, was recently named "murder capital" of the United States.

It is crystal clear that Northwest Indiana and the United States need more money to fight the scourge of drugs and crime. It is so crystal clear that the Clinton Administration has recognized this need with a more than 300% increase in funding for state and local law enforcement. However, it is tragically unclear whether the Lake County Drug Task Force, and others like it, will receive funding or even be eligible for funding.

It would be a travesty if bureaucratic semantics cost the Lake County Drug Task Force—a unit that has proven its worth in the war on drugs—federal funding to fight drugs and crime. If the Task Force closes its doors, the people of Northwest Indiana will suffer. Shutting down a program that works will also add fuel to the cynical fire that government can't do anything right.

I feel that it is safe to assume that the level of success I'm familiar with has been achieved by other programs across the nation. As a matter of national policy, it is extremely important that we continue to fund programs that put our tax dollars in the hands of the people who are on the front lines of the drug war.

I'm asking the committee for specific language to restore the funding eligibility to successful, proven programs like the Lake County Drug Task Force. Shutting the successful programs down would be a giant leap backward in the war against drugs and crime.

Stephen R. Stiglich
Sheriff

OFFICE OF THE SHERIFF
LAKE COUNTY, INDIANA

James D. Reymore
Chief of Police

The Honorable Peter Visclosky
Congressman, 1st District of Indiana
2464 Rayburn - House Office Building
Washington, D.C. 20515

February 24, 1994

Re: 1995 Drug Formula Requests
by Clinton Administration

Dear Congressman Visclosky:

As a result of a telephone conversation with your staff, I am forwarding a letter of concern pertaining to Drug Formula Funding, or lack thereof, being proposed by President Clinton's Administration, as a part of the overall budget request to Congress.

As a result of the 1994 budget and budgets prior to 1994, the State of Indiana, through its Criminal Justice Funding Agency, has been able to undertake over more than thirty (30) Drug Task Forces throughout the State. Those Task Forces have played an important part in containing the spread of illicit drugs throughout the Indiana area.

In 1993, \$423,000.00 dollars was provided for Drug Task Forces, as well as educational programs, such as D.A.R.E., in order to prepare young people in dealing with the pressures of drug abuse, as well as in staffing Drug Task Forces to fight organized drug sales.

In 1994, budget and funding to the State of Indiana, decreased to \$358,000.00 dollars. However, most programs continued to be funded.

If the Clinton Budget, as requested, passes Congress for 1995, there will be -0- dollars available for Direct Drug Formula programs. As a result, each of the thirty (plus) Task Forces will be forced to close their doors and a like number of geographical locations within the State of Indiana will be deprived of active, viable programs designed to fight the ever-increasing drug problem.

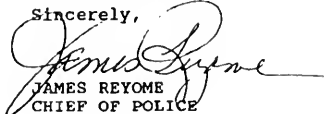
We are not certain as to the rationale of those who prepared the 1995 budget, but it would appear that budgeting for State and local law enforcement is being abandoned, along with many important line item areas affecting our ability to serve our constituents.

I have just returned from a State Chiefs of Police Conference, where a universal concern and dismay were the order of business concerning this topic. Drug Task Forces, in Indiana, are a unified approach toward fighting the illicit drug problem. D.A.R.E. programs in our schools have been an important alternative to kids who are attempting to find solutions to the pressures exerted by drug pushers.

We find it impossible to believe that Government would desert us in these areas in our time of need. We, in local enforcement, would appreciate your efforts in making a strong stand to restore funding to its current level. We would stand ready to assist, in any way we can, in aiding your efforts.

We would appreciate any effort you might be able to exert in assisting us in this crucial matter.

Sincerely,



JAMES REYMORE
CHIEF OF POLICE

Chairman SABO. Peter, thank you.

We are hearing from lots of people on the virtue of that program, and we can make recommendation, but, ultimately, that is something that will be decided—I am not sure if you are on that subcommittee of appropriations or not.

Mr. VISCLOSKY. I am not, but I plan to make my views known. And I felt that, given the opportunity, I would at least express it to the committee, that it is an important program, again, not to add dollars but to provide them the opportunity.

Chairman SABO. Mr. Price.

Mr. PRICE. I also want to thank you for the testimony this morning. I do serve on that subcommittee, and we will be considering this very carefully.

Mr. VISCLOSKY. Thank you very much.

Chairman SABO. Mr. Hamburg, welcome to the committee. We will put your entire prepared statement in the record.

STATEMENT OF HON. DAN HAMBURG, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF CALIFORNIA

Mr. HAMBURG. Mr. Chairman, Congressman Price, thank you for the opportunity to testify today on the President's fiscal year 1995 budget.

Let me begin by saying that I appreciate the difficulty of your task in attempting to meet the public investment needs of our country within the discretionary spending caps enacted in last year's budget reconciliation bill. I supported that legislation and the tight spending caps that it mandated because, like the members of this committee, I recognize we need to maintain fiscal discipline, and we need to move the deficit steadily in a downward path.

We knew when we passed the reconciliation bill that the spending caps would make it extremely difficult to maintain spending and program levels for most of our discretionary programs on the domestic side and the military side.

Our expectations were confirmed when the President submitted his fiscal 1995 budget to Congress earlier this month. This budget cuts more than 300 programs below last year's level, completely eliminating 100 of them. Actually, I think it is about 115 of them all together.

The tight discretionary caps are one reason for the pressure on domestic discretionary programs. Outrageous military spending is another. We could spare worthwhile domestic programs and go much further in meeting the President's stated investment goals were it not for a defense budget request that continues to reflect cold war thinking. Instead of welcoming the end of the cold war with reduced military spending, the administration is seeking \$17.2 billion more in defense appropriations and \$11.8 billion more in outlays over the next 4 years than it requested in its 1994 budget. With this defense budget, we will be spending \$30 billion more on defense next year than our 15 NATO allies combined.

If we adopt this defense budget, we will continue to spend billions on cold war relics with no real mission. The B-2 bomber, Trident nuclear missiles, a new aircraft carrier, these are just a few examples of government waste in the President's budget.

According to an analysis prepared by the majority staff of this committee, between 1990 and 1999 defense discretionary spending in the budget is projected to decline 35 percent in real, inflation adjusted terms. Yet, the same analysis shows that defense spending in 1995 will still be above the 1981 cold war level. Moreover, while the defense budget declines slightly in 1996 and 1997, by 1998 it is climbing up again and by 1999 it returns to 1995 levels.

Mr. Chairman, this committee's analysis of the budget stated plainly that the debate over the peace dividend has been settled, that the peace dividend pays for the costs of health care and what is left goes to reduce the deficit.

I would argue that there is no peace dividend in the President's budget, not for public investments, not for health care, deficit reduction or anything else, not when we are still spending \$265 billion on defense in 1999 to defend against a nonexistent enemy. How can we say we have a peace dividend when domestic discretionary spending in this budget will be lower than any period since the 1950's?

The President's request for defense outlays over the next 5 years has added significantly to the pressure on domestic and international discretionary programs. An analysis by the Center on Budget and Policy Priorities shows that if we approve the President's defense spending levels in the Budget Resolution, we will have to cut nondefense discretionary programs over the next 4 years \$28 billion below the level needed just to keep pace with inflation.

Please note that that figure does not include the President's investment proposals. If the investments are funded and the defense spending levels adopted, the cuts to existing domestic programs would have to be far deeper.

The excessive defense spending in the President's budget is in marked contrast to domestic spending levels. Adoption of the President's budget as proposed will mean that for 5 years in succession, domestic discretionary programs will shrink as a percentage of the economy. If we adopt the President's budget, by 1999 domestic discretionary spending as a percent of Gross Domestic Product will be at its lowest level since 1962.

I would like to briefly review some of the domestic programs that were cut to support this cold war budget. The President's request for Community and Regional Development, Function 450 in the Budget Resolution, is projected to be \$1 billion below current services by fiscal year 1999.

This function includes programs providing Federal assistance for community and economic development in urban and rural communities. Included are the Community Development Block Grant program, the Economic Development administration, the Small Business Administration disaster loan program, and FEMA disaster relief and insurance programs. Budget authority in this function has already declined 29 percent from 1980 to 1994.

The budget cuts the Low Income Home Energy Assistance Program by \$750 million, roughly half of last year's funding. Yet this program helping low income persons meet home energy costs currently serves only about one out of five eligible families. The Maternal and Child Health Block Grant is reduced by \$8 million from

the fiscal year 1994 appropriation. Mass transit operating subsidies are cut by \$0 million, or 25 percent. The list goes on.

Mr. Chairman, we need a peace dividend now more than ever. The discretionary spending caps offer the opportunity to hold down spending while targeting resources away from the military to where they are needed most: Job creating, infrastructure improvements, environmental protection and cleanup, education, and health care.

Deficit reduction in itself is not enough. Adequate public investments in areas that will create jobs and improve our quality of life are also essential.

With significant reductions in defense spending, we can do both. I urge the committee to further reduce defense spending in the Budget Resolution.

Thank you, Mr. Chairman and members of the committee.

[The prepared statement of Hon. Dan Hamburg follows:]

PREPARED STATEMENT OF HON. DAN HAMBURG, A REPRESENTATIVE IN CONGRESS
FROM THE STATE OF CALIFORNIA

Mr. Chairman and members of the committee, thank you for the opportunity to testify today on the President's Fiscal Year 1995 budget.

Let me begin by saying that I appreciate the difficulty of your task in attempting to meet the great public investment needs of our country within the discretionary spending caps enacted in last year's Budget Reconciliation bill. I supported that legislation, and the tight spending caps in it, because like members of this committee, I recognize that we need to maintain fiscal discipline and move the deficit on a downward path.

We knew when we passed the Reconciliation bill that the spending caps would make it extremely difficult to maintain spending levels for most discretionary programs. Our expectations were confirmed when the President submitted his Fiscal Year 1995 budget to Congress earlier this month. This budget cuts more than 300 programs below last year's levels, completely eliminating 100 of them.

The tight discretionary caps are one reason for the pressure on domestic discretionary programs. Outrageous military spending is another. We could spare worthwhile domestic programs and go much further in meeting the President's stated investment goals were it not for a defense budget request that continues to reflect Cold War thinking.

Instead of welcoming the end of the Cold War with reduced military spending, the Administration is seeking \$17.2 billion *more* in defense appropriations and \$11.8 billion *more* in outlays over the next four years than it requested in its '94 budget. With this defense budget, we will be spending \$30 billion more on defense next year than our 15 NATO allies *combined*. If we adopt this defense budget we will continue to spend billions on Cold War relics with no real mission. The B-2 bomber, Trident nuclear missiles, a new aircraft carrier—these are just a few examples of government waste in the President's budget.

According to an analysis prepared by the majority staff of this committee, between 1990 and 1999 defense discretionary spending in the budget is projected to decline 35 percent in real, inflation-adjusted terms. Yet, the same analysis shows that defense spending in 1995 will still be *above* the 1981 Cold War level. Moreover, while the defense budget declines slightly in 1996 and 1997, by 1998 it is climbing up again and by 1999 it returns to 1995 levels.

Mr. Chairman, this committee's analysis of the budget stated plainly that the debate over the peace dividend has been settled—that the peace dividend pays for the costs of health care and what is left goes to reduce the deficit. I would argue that there is no peace dividend in the President's budget—not for public investments, not for health care, deficit reduction or anything else—not when we are still spending \$265 billion on defense in 1999 to defend against a non-existent enemy. How can we say we have a peace dividend when domestic discretionary spending in this budget will be lower than in any period since the 1950's?

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The budget cuts the Low Income Home Energy Assistance Program by \$750 million, roughly half of last year's funding. Yet this program helping low-income persons meet home energy costs currently serves only about one out of five eligible families. The Maternal and Child Health Block Grant is reduced by \$8 million from the FY 94 appropriation. Mass transit operating subsidies are cut by \$200 million, or 25 percent. The list goes on.

Mr. Chairman, we need a peace dividend now more than ever. The discretionary spending caps offer the opportunity to hold down spending while targeting resources away from the military to where they are needed most—job-creating infrastructure improvements, environmental protection and cleanup, education, and health care.

Deficit reduction in itself is not enough. Adequate public investments in areas that will create jobs and improve our quality of life are also essential. With significant reductions in defense spending, we can do both. I urge the committee to further reduce defense spending in the Budget Resolution.

Thank you, Mr. Chairman and members of the committee.

Chairman SABO. Thank you for your testimony.

This clearly is one of the issues that will be debated throughout this Congress. I would only suggest the same I did to the Members who were here testifying from an opposite point of view, that when they analyze the President's figures that some of this increase disappears in the allowance category which comes at the end of the budget, which is allocated by agency, and the 1995 budget is not allocated in the future through procurement reform.

Those have to be subtracted. I just want to make sure folks are using accurate numbers as they conduct the debate.

Mr. HAMBURG. Thank you, Mr. Chairman.

Chairman SABO. Mr. Price?

Mr. PRICE. I also want to thank you, Dan, for this testimony and I think it reflects the frustration a number of us feel as we see critical domestic efforts under more and more pressure.

I know it is a bit too simple, though, to say that we have a non-existent enemy. It is true, of course, that the cold war is over and we hope will be relegated to the history books, but in the present State of the Union message, he did convincingly argue, I believe, that in many respects it is still a dangerous world, as regrettable as that is.

He talked about rampant arms proliferation, including nuclear proliferation and regional conflicts that can spill over; ethnic and nationalist tensions in these new democracies; environmental degradation; fanatics seeking to cripple the world's cities with terror.

It is a pretty formidable list and the Bottom-Up Review has, of course, attempted to put this debate on a rational footing. So often we have thrown around percentage figures and abstract numbers without any very good sense of what those dollars buy and what the real threat is that we are countering.

We have attempted in the first year of the administration to match those figures with our real strategic needs. So I would hope that the debate will take that kind of turn, that we will be able to get away from debates simply about more and less and really match up the dollars with what those dollars are buying.

Mr. HAMBURG. Dave, I would certainly not argue that the world is not still a dangerous place, but look at the levels that we continue to expend on defense and compare them to the spending of all our adversaries combined. The Soviet Union doesn't exist anymore, but its successor Russia, spends about \$18 billion annually on defense.

The highest spending of any country in the world, other than the United States, happens to be Japan which spends just under \$40 billion. Combine the spending of all of our NATO allies and include non-NATO countries like Russia, and we are overwhelmingly outspending the rest of the world combined.

Noted experts in defense, even from Reagan and Bush years have stated that for something under \$200 billion a year, we could continue to defend ourselves quite well from all of those threats out there that you enumerated a minute ago. I refer to the article published in Scientific American, February 19, 1994.

There would be a tremendous savings to our national budget and we would gain a tremendous amount of flexibility in terms of the kinds of domestic needs that I perceive if we would cut defense outlays.

I want to finally note that I have a naval shipyard right on the edge of my district. I have an Air Force base in my district. I don't come to these conclusions lightly. I realize that I put myself in a vulnerable position with respect to jobs in my district.

But I firmly believe that we have to take this notion of conversion very seriously, that we are no longer in a cold war situation, that if anything, we are inventing a rationale to continue to spend at the levels that we had during the cold war, and that we need to shake this mentality and move forward. The real threats to our national security are not those threats "out there." The real threats are internal.

They are a crumbling educational system, high rates of crime, the breakdown of society on many levels, the neglected infrastructure, that is where our security, in my opinion, is most imperiled.

Mr. PRICE. Well, you certainly make a compelling case for broadening our definition of what this Nation's security is all about and, as the Chairman has said, this is going to be a focal point of our discussions in this committee, this question of the level of defense expenditures, and so we appreciate your contribution to that.

Mr. HAMBURG. Thank you very much.

Chairman SABO. Thank you.

Mr. Hall.

Welcome, Tony. We will put your entire statement in the record.

**STATEMENT OF HON. TONY P. HALL, A REPRESENTATIVE IN
CONGRESS FROM THE STATE OF OHIO**

Mr. HALL. Thank you, Mr. Chairman, Mr. Price.

Good morning, Chairman Sabo and members of the House Budget Committee. I come here today in my capacity as Chairman of the Congressional Hunger Caucus.

I am pleased to say that the Hunger Caucus enjoys the support of over 70 Members, including several here with us in this room today. In particular, I would like to thank Mr. Gephardt, our Majority Leader, and Mr. Kasich, your committee's Ranking Republican, for their active support as members of the Congressional Hunger Caucus.

As Chairman of the Hunger Caucus, I am limiting my comments to you today on issues affecting hungry people both here in the U.S. and overseas. Hunger on our planet remains a serious problem. In the U.S., all reliable estimates show that well over 20 million people go hungry several times each month.

At a hearing I held last November, I learned that between 3 and 4 million elderly Americans regularly experience hunger. Overseas, the problem is much worse. Let me say in the interest of time that 35,000 people still perish every single day from hunger and hunger-related diseases. This numbing statistic is made worse by the fact that hunger is not a mystery. We have the capacity as human beings to stop this catastrophe if only we come together with the political will to do something.

On the domestic hunger front, I am very pleased with the administration's request for the Supplemental Food Program for Women, Infants, and Children, (WIC). The \$350 million increase that President Clinton has requested goes a long way toward keeping his commitment to fully fund WIC by fiscal year 1996.

I am also very pleased and encouraged by the President's proposed increase of \$700 million for Head Start and \$116 million for Job Corps. All three programs represent extremely effective tools in our collective fight against the grind of poverty. I commend the President for his vision regarding these programs.

I must say, Mr. Chairman, that I am disappointed by the administration's proposal to cut \$80 million from The Emergency Food Assistance Program, (TEFAP). The \$80 million cut is from the section of TEFAP that is used to purchase food for soup kitchens and food banks.

Let me tell you about TEFAP and soup kitchens. Things have changed in America. TEFAP and soup kitchens are no longer emergency concepts. Millions of families in America have come to rely upon these sources as regular places to get food for their existence.

For many elderly TEFAP recipients, and those living in remote, rural areas, TEFAP has become their primary Federal food assistance program. TEFAP serves as a safety net for households ineligible for food stamps and those with food stamp benefits too low to last through the month.

TEFAP commodities are also a stabilizing factor for many emergency feeding centers faced with unpredictable food donations of varying quality.

I might add that the \$80 million cut in TEFAP, if allowed to survive, would in all likelihood affect the districts of every single Member of Congress. This cut is penny wise and pound foolish.

Mr. Chairman, you are undoubtedly aware that this year our Nation's School Lunch and School Breakfast programs are being reviewed and improved. I commend my colleague, Mr. Kildee, and others, for their fine work in this area. I am disappointed, however, that the administration has not seen this reauthorization cycle as an opportunity to responsibly expand these very worthwhile programs.

Even under the former administration, the President saw the need to provide modest increases for outreach and expansion of these proven feeding programs. Providing the funds necessary to meet the nutritional needs of our youngest citizens is the first step in ensuring that they are healthy, active minded contributors to our society. I urge the members of this committee to accept Mr. Kildee's and others' suggested budget requests for the expansion of the School Lunch and Breakfast programs.

We will not have another opportunity to do this for several years.

In 1984, around the time we were establishing the Select Committee on Hunger, I had an opportunity to visit a large refugee camp in Ethiopia during one of that region's great famines. One morning, I watched helplessly as 25 young children died before my eyes of hunger. On that day I resolved to myself that hunger would become a lifelong preoccupation.

While tens of millions of children have perished from hunger since that day in Africa, our Nation has contributed admirably, both as a bilateral donor and a multilateral donor, to ending the horror of starving children. We need to keep up this fight. Nothing is more basic than the right to food and America must continue to lead on this cause.

Mr. Chairman, while I am encouraged with the overall budget request of \$20.861 billion in budget authority for the international affairs component of the budget, 1.4 percent of the entire Federal budget, I am extremely worried about selected smaller components, including child survival activities, basic education, the Africa Development Fund, and our Food for Peace Program, Public Law 480.

Mr. Chairman, child survival programs include such basic life-saving activities as child immunization, oral rehydration therapy, respiratory treatment, breast-feeding initiatives, and maternal and child health care. Our own body recommended last year that the administration fund such activities at approximately \$275 million for this fiscal year.

In reality, USAID will probably spend much less, somewhere near \$235 million. The administration has proposed this lower amount for fiscal year 1995. If we are ever to realize the goals of the 1990 World Summit for Children reducing child deaths by one-third, reducing child malnutrition and maternal mortality by half, and providing all children, especially girls, access to basic education, we need to get our child survival budget up in the area of \$275 to \$350 million.

I have recently circulated a "Dear Colleague" letter seeking co-signers on a letter to President Clinton to this effect.

Other programs slated to receive cuts that fall into what I call the "precious category" include basic education, the Africa Development Fund, and Public Law 480.

While my letter to President Clinton about these programs is not a line in the sand regarding funding, I do recommend level or increased funding for all three. The Food for Peace Program is the main, if not only, source of funds to support U.S. food assistance efforts overseas and to combat hunger. Again, if we are ever to realize the goals of the World Summit for Children, we must make these vital lifesaving programs a priority.

Thank you, Mr. Chairman, for the opportunity to share with you my thoughts on these hunger programs.

What I am saying, Mr. Chairman and Mr. Price and members of the committee, is that we need to work within the budget. I am not asking for an increase in the total budget. I am asking to make those kind of choices based on priority. The areas that I mentioned are considered by the experts all over the world and our country to be priority, very good programs to help the people I have been talking about.

We waste a lot of money and within our budget we can do a much better job, so I just appreciate your concern and your care and your attention to this matter.

[The prepared statement of Hon. Tony P. Hall follows:]

PREPARED STATEMENT OF HON. TONY P. HALL, A REPRESENTATIVE IN CONGRESS
FROM THE STATE OF OHIO

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DOMESTIC HUNGER AND THE FY 1995 BUDGET

On the domestic hunger front, I am very pleased with the Administration's request for the Supplemental Food Program for Women, Infants, and Children (WIC). The \$350 million increase that President Clinton has requested goes a long way toward keeping his commitment to fully fund WIC by FY 1996. I am also very pleased and encouraged by the President's proposed increase of \$700 million for Headstart and \$116 million for Job Corps. All three programs represent extremely effective tools in our collective fight against the grind of poverty. I commend the President for his vision regarding these programs.

I must say, Mr. Chairman, that I am disappointed by the Administration's proposal to cut \$80 million from The Emergency Food Assistance Program (TEFAP). The \$80 million cut is from the section of TEFAP that is used to purchase food for soup kitchens and food banks. Let me tell you about TEFAP and soup kitchens. Things have changed in America. TEFAP and soup kitchens are no longer emergency concepts. Millions of families in America have come to rely upon these sources as regular places to get food for their existence. For many elderly TEFAP recipients, and those living in remote, rural areas, TEFAP has become their primary federal

food assistance program. TEFAP serves as a safety net for households ineligible for food stamps and those with food stamp benefits too low to last through the month. TEFAP commodities are also a stabilizing factor for many emergency feeding centers faced with unpredictable food donations of varying quality. I might add that the \$80 million cut in TEFAP, if allowed to survive, would in all likelihood affect the districts of every single Member of Congress. This cut is penny wise and pound foolish.

Mr. Chairman, you are undoubtedly aware that this year our nation's School Lunch and School Breakfast programs are being reviewed and improved. I commend my colleague Mr. Kildee, and others, for their fine work in this area. I am disappointed, however, that the Administration has not seen this reauthorization cycle as an opportunity to responsibly expand these very worthwhile programs. Even under the former Administration, the President saw the need to provide modest increases for outreach and expansion of these proven feeding programs. Providing the funds necessary to meet the nutritional needs of our youngest citizens is the first step in ensuring that they are healthy, active minded contributors to our society. I urge the members of this committee to accept Mr. Kildee's and others suggested budget requests for the expansion of the School Lunch and Breakfast programs. We will not have another opportunity to do this for several years.

INTERNATIONAL HUNGER AND THE FY 1995 BUDGET

In 1984, around the time we were establishing the Select Committee on Hunger, I had an opportunity to visit a large refugee camp in Ethiopia during one of that region's great famines. One morning, I watched helplessly as 25 young children died before my eyes of hunger. On that day I resolved to myself that hunger would become a lifelong preoccupation. While tens of millions of children have perished from hunger since that day in Africa, our nation has contributed admirably, both as a bilateral donor and a multi-lateral donor, to ending the horror of starving children. We need to keep, up this fight. Nothing is more basic than the right to food and America must continue to lead on this cause.

Mr. Chairman, while I am encouraged with the overall budget request of \$20.861 billion in budget authority for the international affairs component of the budget (1.4% of the entire federal budget), I am extremely worried about selected smaller components including child survival activities, basic education, the Africa Development Fund, and our Food for Peace Program (P.L. 480).

Mr. Chairman, child survival programs include such basic life saving activities as child immunization, oral rehydration therapy, respiratory treatment, breastfeeding initiatives, and maternal and child health care. Our own body recommended last year that the Administration fund such activities at approximately \$275 million for this fiscal year. In reality, USAID will probably spend much less, somewhere near \$235 million. The Administration has proposed this lower amount for FY 1995. If we are ever to realize the goals of the 1990 World Summit for Children—reducing child deaths by one third, reducing child malnutrition and maternal mortality by half, and providing all children, especially girls, access to basic education—we need to get our child survival budget up in the area of \$275 to \$350 million. I have recently circulated a Dear Colleague seeking co-signers on a letter to President Clinton to this effect.

Other programs slated to receive cuts that fall into what I call the "precious category" include basic education, the Africa Development Fund, and P.L. 480. While my letter to President Clinton about these programs is not a line in the sand regarding funding, I do recommend level or increased funding for all three. The Food for Peace Program is the main, if not only, source of funds to support U.S. food assistance efforts overseas and to combat hunger. Again, if we are ever to realize the goals of the World Summit for Children, we must make these vital lifesaving programs a priority.

Thank you, Mr. Chairman, for the opportunity to share with you my thoughts on these hunger programs.

Chairman SABO. Thank you very much, Mr. Hall.

There is no one in the Congress who has been more focused and contributed more to make sure that people get food in this country than you have and you make us all proud of the work you do and you clearly have a major effect on what we do internally in this country and throughout the world.

One of the additions in last year when we had the big deficit reduction that I thought was of great importance was not only the

increase in earned tax credit, but a significant expense in the Food Stamp program in this country.

Mr. HALL. Yes.

Chairman SABO. Let me ask one question. We are not the experts in all the programs in the country and that happens in authorizing and appropriating committees and we try and set a broad framework for them. But I am curious about Public Law 480 how you think it is working.

The sort of list that always goes around, it seems like, of programs to be targeted for elimination and that program appears regularly in those lists recently and it is one of the old Food for Peace programs and I know that sort of stirs memories for me because Humphrey was really, I think, an early advocate of that program.

Mr. HALL. It is a wonderful program. It was designed for wonderful reasons. And in most cases, it has worked very, very well. It is our only real practical food program overseas. Some countries do a great job. It depends on who the AID Director is. The ambassador might be their vision for the country. Other countries are not so hot.

For example, El Salvador and Egypt. Egypt has often times taken our food and fed it to the cows. Public Law 480 was never designed do that. El Salvador we gave a lot of food. It was the "stuff-ability" problem.

In order to get rid of maybe our political IOUs that supposedly people higher up in the past administrations felt that we owed, we would stuff Public Law 480 food into that country to the point of embarrassment and that gave Public Law 480 not a good reputation. But it has worked. I have seen it. I have seen it in many, many countries of our world.

We have different components to it and I think it really depends on how careful we are as Congresspeople and people in our various administrations, the kind of people we have in the field.

When we contract with the private voluntary organizations overseas, the African Relief Service, for example, World Vision, CARE, those kinds of other private voluntary groups, when we do those kinds of private contracts, these are great groups. We get value for the dollar.

They have low overhead. They watch it very carefully. When we give Public Law 480 or any other program, whether it is economic assistance to a government and we give it to the government, watch out. Oftentimes our recommendation has been, and we have done this more in the past few years, is give our money, contract our money through private voluntary organizations. You will get the bang for your dollar.

Chairman SABO. Mr. Price?

Mr. PRICE. Mr. Chairman, I would like to add my thanks to Mr. Hall for this testimony. It is very specific and it offers us some very useful guidance as we consider the overall budget levels and also will be helpful, I think, to the appropriators as they look at the priorities within the domestic and foreign affairs budgets.

So thank you for your help with this.

Mr. HALL. Thank you.

Chairman SABO. We thank you and we wish you well with your neck.

Mr. HALL. Thank you.

Chairman SABO. Mr. James Weill, Children's Defense Fund. Welcome to the committee. We will put your entire statement in the record.

STATEMENT OF JAMES D. WEILL, GENERAL COUNSEL, CHILDREN'S DEFENSE FUND

Mr. WEILL. Thank you, Mr. Chairman.

We at the Children's Defense Fund greatly appreciate the opportunity to testify here today. Overall, we think that the choices that the President has made in his proposed budget are sound ones that will improve the lives of many of America's children and families.

With a couple of exceptions that I will refer to briefly, we urge the committee to follow the outlines of the President's proposal in designing the fiscal year 1995 budget.

As a result of the President's fiscal year 1994 proposals and this committee's and the Congress' effectuation of those proposals, there are some very important investments in children that are already under way. In fiscal year 1994, Congress increased funding for Head Start, immunizations, the Earned Income Tax Credit, the Leland Childhood Hunger Relief Act, which the Chairman referred to, and the new family preservation law.

Even with those crucial investments, much remains to be done. There are more poor children in America today—14.6 million poor children or about 22 percent of all of our children—than in any year since 1965, even though the Gross National Product nearly doubled during that period. One out of eight of our children has no health insurance at all, and the violent gun war in our Nation is taking the life of a child every 2 hours, the equivalent of a classroomful of children every 2 days. Homicide is now the third leading cause of death for elementary and secondary school-age children in this country.

We have hopeless children in terrible schools with dismal job prospects, with no after-school activities, living in isolated and poor neighborhoods. Those neighborhoods represent a breeding ground for school failure and other behaviors which have huge costs to the children, but which also have huge costs to the society we can no longer sustain.

So, much remains to be done. Last year's investments in children are just the down payment on what we need to accomplish to undo the ravages of the past two decades.

With that as background, let me mention briefly some key areas of budgetary focus this year. First, the President's early childhood investment proposals are exactly what we need to assist struggling young families, both in terms of their child care needs while they work and in assuring that children are safe, well cared for, and enter school ready to learn.

The President's proposed increase of \$700 million for Head Start will continue to move the program toward full funding so that all eligible children can receive services and will also strengthen its quality and provide full-day, full-year services to some children.

Head Start mostly serves 3- to 4-year-olds, but child care is now a basic necessity for millions of American families with young chil-

dren of all ages. Yet State and Federal child care funding is so inadequate that millions have nowhere to turn for assistance.

In 1993, 31 States and the District of Columbia had lengthy waiting lists for families needing child care help. Working families, and families that would be working if they got just modest child care help, are waiting by the millions. The President has proposed an important first step to meet this need by increasing the Child Care and Development Block Grant by nearly \$200 million.

We urge the committee to include the President's proposals for both Head Start and child care in the budget resolution.

Let me turn briefly to immunizations. As part of OBRA last year, Congress enacted a program to purchase vaccines for children who are poor or uninsured. Congress also significantly increased appropriations for the immunization infrastructure to provide the resources for health clinics, nurses, outreach workers, and others to assure that the vaccines actually get from the vial to the child; that children are immunized on schedule.

The President's 1995 budget, however, proposes to reduce this appropriation by \$64 million, perhaps based on a belief that some of these funds were previously used to purchase vaccines and will no longer be needed because of the new purchase program.

However, as was repeatedly discussed in and outside the Congress last year when these programs were being passed, the cost of vaccines is only one of the barriers to immunizing children and it is essential that the human resources be there also to identify the children and get the vaccine to them. And even the 1994 appropriation did not fully meet this need.

Therefore, we urge the committee at least to maintain the funding for immunization services at 1994 levels in fiscal year 1995.

The President's fiscal year 1995 budget includes some proposals which we believe will work against the otherwise very significant investments that he is proposing and I would like to note two in particular.

First is the nearly 50 percent cut proposed in the Low Income Home Energy Assistance program, or LIHEAP, which rescues children and families each winter from freezing and helps poor families avoid the awful choice between enough heat and enough food.

We urge the committee not to make this cut and to maintain the funding for LIHEAP at its fiscal year 1994 level.

We also urge the committee to maintain one other program that the President would eliminate completely, the Family Unification program which targets Section 8 rental subsidies for families whose children are at risk of placement in foster care or who are unable to return home because the family is homeless or living in unsuitable housing.

Finally, I would like to refer to the Senate crime bill, H.R. 3355, which includes some very important violence prevention provisions. Known as the Ounce of Prevention provisions, this fund contains close to \$1 billion over 5 years to assure that there are after-school, summer and extracurricular programs for children and youths in order to help prevent violence and reduce crime and violence in our communities.

It will be very important that the budget resolution in some form preserve the Congress' ability to establish these programs, effective in fiscal year 1995, as part of the crime legislation.

Again, we appreciate the opportunity to testify here today as the committee undertakes its very difficult task.

Thank you.

[The prepared statement of James D. Weill follows:]

PREPARED STATEMENT OF JAMES D. WEILL, GENERAL COUNSEL, CHILDREN'S DEFENSE FUND

Mr. Chairman, the Children's Defense Fund greatly appreciates this opportunity to testify here today on the President's Fiscal Year 1995 budget.

In his second year of budget proposals, President Clinton has continued his very strong commitment to both fiscal integrity and targeted investments in children and families. Overall, the choices which he has made are extremely sound and will improve the lives of many of America's children and families. We urge the Committee to follow the outlines of the President's proposals in designing the Fiscal Year 1995 budget.

The President and the Congress are faced with the problem of controlling the deficit while also investing in our nation's future. Just as getting control over the deficit is central to building and sustaining the long-term economic health of our nation, so is meeting the needs of our children. Neither standing alone will suffice.

Neglecting the desperate needs of millions of American children just as surely subverts our economic and social future as would neglecting the need to bring down the deficit. Ill-fed, undereducated, unhealthy and increasingly alienated generations of future workers, parents and voters will not grow the economy, sustain Social Security's intergenerational promise, maintain a strong defense or nurture our democracy, no matter how small the deficit is.

Congress and the President made a strong beginning in changing this course in Fiscal Year 1994. As a result of the President's FY 1994 proposals and this Committee's and the Congress' effectuation of those proposals, some very important investments in children are already under way. In FY 1994, Congress increased funding for Head Start so that some additional children can be served; increased the funds that assure that there are more clinics, nurses, and outreach programs to identify and immunize our children; and passed a major expansion of the earned income credit, a new child welfare and family preservation program, an initiative to purchase of vaccines for poor and uninsured children, and the Mickey Leland Childhood Hunger Relief Act.

Yet, even with these important investments, much remains to be done. The American dream is still beyond even imagination for millions of families, youths, and children of all races and classes. Our children are fighting and dying in our streets and homes instead of playing, learning, and planning for and dreaming about futures that should last for decades. Additional targeted investment is needed in the programs that we know work for children and their families.

Unfortunately, the picture for our nation's children remains grim. There are more poor children in America today—14.6 million or 21.9 percent of our children—than in any year since 1965, despite the near doubling of our Gross National Product during this period. Over 2.9 million children were reported abused or neglected in 1992, about triple the number reported in 1980. One in every eight children had no health insurance in 1992. Almost one in four babies was born to a woman who did not get early prenatal care. In 1990, there were more than half a million (519,577) births to girls ages 15-19, pushing the teen birth rate up for the fifth consecutive year to its highest level since 1971. And, the war against our children has moved into the streets. The violent gun war in our nation is taking the life of a child every two hours—the equivalent of a classroomful every two days. Homicide is now the third leading cause of death for elementary and secondary school children (ages 5-14).

Without ongoing, substantial investments, the future is bleak. It is there that the consequences of the current trends, if left to go unchecked, will be even more devastating. By the year 2001:

- A total of 17 million children will be poor.
- The United States will spend \$358 per person annually to lock up our youth and only \$13 per year to give preschoolers a Head Start.
- One million babies will be born into poverty each year.
- 37,000 children will be arrested every week.

The economic and social costs of poverty, ill-health, neglect and violence among our nation's children are staggering. We suffer far more than most of our economic peers and competitors abroad from high rates of babies born too small, infant mortality, physical and mental disabilities, family homelessness, childhood hunger, school absenteeism and dropouts, grade repetition, violence among children, low skills and teenage births. Unless we change course, these costs will continue to be borne not just by our children but by our society in the form of lower productivity and economic growth, and higher costs for welfare, foster care, remedial education, criminal justice and other remedial expenditures.

So, much remains to do. Last year's investments in children are the down payment on what must be years of investing to undo the ravages of the past two decades. The good news is that, as Congress invests in programs key to children and their families, Congress will be helping families and communities to restore the hope that encourages children to grow to become productive citizens. Your investments in children assure this nation's future.

The President's *Early Childhood Investment proposals*—in *Head Start* and *child care*—are exactly the investments needed to assist struggling young families both in terms of their child care needs while they work and in assuring that children are safe, well cared for, and enter school ready to learn. Last year, the President set a goal of fully funding *Head Start* by 1999. The President's proposed increase of \$700 million will continue to move the program toward full funding, although meeting the goal by 1999 will be difficult. The new funds will allow *Head Start* programs to serve more children and to strengthen quality, provide full-day, full year services to some children, and help communities serve families with infants and toddlers.

I would reiterate what sixteen leading early childhood education scholars, including Dr. T. Berry Brazelton, Dr. Julius Richmond, Dr. Urie Bronfenbrenner and Dr. Edward Zigler wrote you last year: "Expanding *Head Start* is the best way to guarantee that all children enter school ready to learn. The program supports both young children and their families through a range of comprehensive services. Evidence from research clearly demonstrates that high quality comprehensive preschool programs yield substantial long-term benefits for low-income children, promoting their healthy development and future success...[The President's] proposed investments are urgently needed now, both to further strengthen *Head Start's* quality and to expand the program so that all eligible children can participate."

Child care is now a basic necessity for millions of American families. However, state and federal child care funding is so inadequate that millions of low-income working families have nowhere to turn for assistance. In 1993, thirty-one states and the District of Columbia had lengthy waiting lists for child care help. Last year, the Child Care and Development Block Grant was not increased. The scarcity of child care dollars has forced a perverse competition pitting low-income families who are working against low-income families receiving AFDC who seek work or education and training. In his Fiscal Year 1995 proposal, the President has proposed an important first step, increasing the Child Care and Development Block Grant by \$198 million. We urge the Committee to include the President's proposals for *Head Start* and child care in the budget resolution.

The President's budget proposes very modest changes in the key programs that affect *children's health*. We support President Clinton's national health reform proposal and believe that *universal coverage with a comprehensive, affordable benefit package for children is essential*. We understand why the President, in the midst of the health reform debate, has chosen to minimize the health issues in this budget. When the health reform plan becomes law, however, it will still be necessary to assure that the infrastructure to provide services exists in underserved communities. As a result, it is essential that the Committee continue to strengthen investments in key programs such as *immunizations, maternal and child health, the National Health Service Corps, and community, migrant and mental health centers*.

Last year, the President proposed significant new efforts to *immunize our nation's children*. As part of the Omnibus Budget Reconciliation Act of 1993, Congress enacted a program which will purchase vaccines for children who are poor or uninsured. This program takes effect in Fiscal Year 1995 and is reflected in the President's budget proposal. In addition, Congress significantly increased appropriations for immunization infrastructure to provide the funds for health clinics, nurses, outreach workers and others to assure that the vaccines get from the vial to the child—that children are immunized on schedule. The president's Fiscal Year 1995 budget proposes to reduce the appropriation by \$64 million, perhaps based on a belief that funds previously needed to purchase vaccines will no longer be needed as these vaccines will be purchased under the new program. However, as we said repeatedly last year during the debate over the new program, the cost of vaccines is only one of

the barriers to immunizing children. It is absolutely essential that the human resources be there to identify and immunize children. The FY 1994 appropriation did not meet the need—it did not provide enough additional staff to keep clinics open longer hours and for outreach workers. As a result, even though there may be savings from the shift of the cost of purchasing the vaccines, the funds saved should be kept in the immunization program and used to assure that, now that the vaccines will be available, the staff and the clinics will exist to administer them to children. We urge the Committee to include the funds that at least maintain the funding for immunization services at FY 1994 levels in FY 1995.

The President's budget for FY 1995 includes significant increases for some *child nutrition* programs and maintenance for others, including an increase of \$354 million in WIC, the Supplemental Feeding Program for Women, Infants and Children. This increase will allow another 1.3 million mothers and babies to participate in the program and continue to move the program toward full funding in FY 1996. We urge you to include this figure in the budget.

The President's FY 1995 budget includes an 11 percent increase (\$117 million) for the *Job Corps*. Job Corps is a cornerstone of our job training system for disadvantaged youths. The program provides education, training, and supportive services in a residential setting, boosting employment prospects while reducing crime and other costs to society. Despite Job Corps' track record of success, the program reaches only one in 19 eligible young people. We urge the Committee to include this proposed increase in the budget resolution. It will assure that the program can continue to expand to provide training to additional young people.

The President's FY 1995 budget includes some proposals which we believe will work against the otherwise very significant investments that he is proposing in children and families. Two are of particular note here. First, a very large cut is proposed for the *Low Income Home Energy Assistance Program (LIHEAP)*. This program rescues children and families each winter from freezing and helps poor families avoid the awful choice between enough heat and enough food. Dollars that might otherwise have had to pay the heat instead are stretched to cover a few more meals or to pay the rent. We are now coming to the end of a very harsh winter—one which reminded us that keeping warm is not a luxury. We urge the Committee to maintain the funding for LIHEAP at its FY 1995 level.

Second, the President's budget proposes to eliminate the *Family Unification* program which targets Section 8 rental subsidies for families whose children are at risk of placement in foster care or are unable to return home because they are homeless or living in unsuitable housing. Over 1200 certificates already have been issued, and over 4,000 families, hopefully more, will be assisted in the coming year. While we applaud the budget's increase in Section 8 certificates set aside for homeless families, we urge the Committee to specifically include the Family Unification program in its FY 1995 budget resolution. The relatively new program, although small, helps an especially vulnerable group of children and families and is demonstrating its worth as a very cost-effective form of assistance.

There are two areas in which we urge the Committee to preserve the ability of the Congress to act this year. First, the Senate's crime bill, H.R. 3355, includes very important violence prevention provisions. These provisions, known as the "*Ounce of Prevention*" provisions, will provide close to \$1 billion to assure that there are *after-school, summer and extracurricular programs* for children and youths. In a recent *Newsweek/CDF* poll of children and parents, when parents were asked the one best way to keep children in their community safe from violent crime, the highest percentage of parents (34%) called for more after-school programs. It will be very important that the budget resolution preserve the Congress' ability to establish these programs, effective in FY 1995, as part of the crime legislation.

It is essential to include room in the FY 1995 budget for important child nutrition improvements in the Child Care and Adult Care Food Program, the Summer Food Program, and the School Breakfast Program. There is a critical link between nutrition and education for both preschool and school-age children. The reauthorization of the child nutrition programs includes some key improvements which would make it easier for low-income children to participate as well as improve and expand the meals available to them through these programs.

This Committee, through last year's budget resolution and the ultimate budget reconciliation bill, assured that substantial investments are under way for children and their families. In FY 1995, it is critical to maintain and build upon those investments. We all know what works. We know that pregnant women who receive prenatal care are far more likely to give birth to healthy babies than women who do not. We know that children can not learn if their stomachs are empty or their health in jeopardy because their homes are cold, or if they are distracted by the violence around them. We know that with nurturing, secure child care and Head Start

programs, children will enter school ready to learn. We know that after-school and summer programs are the key not only to keeping children safe and off the streets but also to unlocking the promise of their futures. We know that dollars invested in children and the programs they need result in significant savings in the future. We urge you to budget the funds needed to assure that these programs work and to continue to place the high priority on children that you did last year. We thank you for your efforts on children's behalf.

Chairman SABO. I thank you for your excellent testimony. I particularly appreciate your support for the President's health care reform proposal. The fact is the bulk of uninsured in this country are either working or dependents of workers and I am sure that breakdown exists, but my sense is an incredible number of our uninsured are from single-parent families where the parent is working and in most cases a woman, who may be offered group insurance with significant employer payment for self-coverage, but be required to pay fully for dependent coverage and working at a low wage and be unable to exercise that option under today's system.

Mr. WEILL. That is correct, Mr. Chairman. We are very supportive of the President's plan or any plan that works off the President's plan and reaches comprehensive benefits and universal coverage for children and parents.

Most of the uninsured children and adults in this country are from working families that have moderate incomes.

Chairman SABO. Have you looked at the numbers? How many of them are children where the case is that the parent is insured but simply can't afford to buy it for the children?

Mr. WEILL. We are releasing a report next week, actually, that has some of those numbers in it and I can tell you some that I remember. As you know, there are about 8.3 million children who have no insurance at all, and the very large majority of them live in families with incomes between 100 and 300 percent of the poverty level. And the very large majority of them, about 90 percent of them, have employed parents, I believe.

Chairman SABO. Do you have any idea to what degree parents have insurance and the kids don't?

Mr. WEILL. The dropoff—the census data don't allow us to track children and parents' insurance that way. We do know that roughly 10 percent fewer children from working families have insurance, private employer-based insurance, than working adults do, so there is that type of dropoff.

We don't always know whether the insurance is not offered by the employer at all, or it is offered but the premiums are so high that the parents can't afford it, but we do know that most of the uninsured children and adults in this country are from working families.

Most of them are actually in two-parent families in the children's case, not single parent. Most of them are from moderate, middle-income families, and are white, and from suburban and rural areas. So in some ways, the uninsured are a portrait of middle-class America. And it is absolutely essential that we move ahead to insure all children and all adults in this country.

Chairman SABO. Let me move from questioning to just a simple advocacy role.

I have watched what has happened in urban areas over recent years as it relates to the question of poverty. To me, the most fun-

damental change that has occurred is the change in the income structure in this country.

In the figure I use from 1977, the bottom 40 percent in our country, had incomes twice that of the top 1 percent. Today that is roughly 50-50, which is a—we talk about income redistribution plans.

What we have had is a very fundamental redistribution of where income flows in this country over the last 15 or 20 years, maybe some caused by government, lots of it simply caused by changes in the economy.

I am absolutely convinced that the most important thing we could do for urban areas is a significant increase in the minimum wage that relates to the income people have. We are increasingly asked in the public sector to make expenditures on behalf of the people who are working full-time and don't make enough to exist in our society. I think we have to do that.

I am a strong supporter of those programs that do those supplements. It seems to me that the goals should be if somebody is working full-time, their salaries should be able to take care of food, housing, some of those basics. And I just urge you and other groups that work on programs for people who have more modest incomes to also consider the question of how you deal with their income.

I am skeptical that we will ever catch up to the need in the public sector. That is always a problem. And also what we do at times is not always equitable between families. Some qualify, some don't, and that sort of income parity between people of similar means inequities we create at times may be unavoidable, but that disturbs me.

Mr. WEILL. I agree with you completely, Mr. Chairman. We support an increase in the minimum wage. We also support an employer mandate in health care reform because, in addition to everything else, there has been too great a shift of costs from the private to public sector through the decline in the minimum wage and the decline in private health insurance—15 percent of children have lost employer-based health insurance in the last 15 years.

This is shifting costs from the private to public sector. We need to stabilize that if we are going to get good help to children and have decent family incomes. I agree with you that these inequalities are driving many of the problems in our society and in our inner cities.

Chairman SABO. Mrs. Mink.

Mrs. MINK. Thank you very much, Mr. Chairman.

I, too, want to congratulate you and the organization you represent, the Children's Defense Fund, for the enormous consciousness raising that you have done over the years in bringing to focus the priority concern that most of us have with respect to the children in our society and the enormous problems and needs that they have on a day-to-day basis, I think you have outlined many of them.

I also share the chairman's view that if we intend only to continue support for these supplemental programs and not get to the root causes of poverty, it is a losing battle. So my concerns are elevated somewhat these days with the talk of the welfare reform efforts which seem to assume that because you work you have ade-

quate income to support a family, without regard to the fundamental problems with regard to low-wage jobs that cannot provide adequate funds for many millions of working families in our society.

So we have a long way to go beyond just finding a job at minimum wage and saying, well, we have done our work as far as the government is concerned.

One of the points that many of us in Congress take for granted is the universal support for Head Start. And we continue to believe that full funding is or will soon be achieved.

I notice in your testimony you are saying, well, yes, we have additional funds in the budget for next year and that we are moving towards full funding. How far away realistically are we to full funding for head start and how many children would qualify for Head Start today if there were adequate funds?

Mr. WEILL. I apologize, but I can't answer the question precisely.

If the President's proposal, the \$700 million increase, is passed, I would say we are on track to full funding around 2001, 2002.

The President last year said in his original budget that he wanted to reach full funding by 1999, but based on the increase he requested last year and the increase that passed in Congress, and this proposal, that is getting stretched out by a couple of years. But the terrible budget choices that are faced on the discretionary funding side—which as several witnesses mentioned earlier is a problem that needs fixing in the broader context—is pushing that timetable back. We obviously would like to reach the goal sooner, but we recognize that \$700 million was a huge bite to take out of this problem and so we support that increase.

There are about 4 million 4-year olds and about 4 million 3-year olds and about a quarter of those children are living in poverty, but not every 3- and 4-year-old wants—not every parent wants their children to be in a Head Start type program, and there are other programs.

So the number I would guess is in the neighborhood of half a million children from each age cohort, but we will get more precise numbers to you right away.

Mrs. MINK. I think it is crucial that we continue to point out that we made a promise for full funding and that we are not there yet in case anyone has any eyes on the \$700 million.

Thank you very much, Mr. Chairman.

Chairman SABO. Thank you for your testimony.

Mr. Ouellette from the Non Commissioned Officers Association of the U.S. of America and Director of Legislative Affairs; and Mr. Larry Rhea, Deputy Director of Legislative Affairs. We will put your entire statement in the record.

**STATEMENT OF SERGEANT MAJOR MICHAEL F. OUELLETTE,
DIRECTOR OF LEGISLATIVE AFFAIRS, NON COMMISSIONED
OFFICERS ASSOCIATION OF THE UNITED STATES OF AMERICA;
AND LARRY D. RHEA, DEPUTY DIRECTOR OF LEGISLATIVE
AFFAIRS, NON COMMISSIONED OFFICERS ASSOCIATION**

Mr. OUELLETTE. Good morning, Mr. Chairman. Thank you very much. Mr. Chairman, the Non Commissioned Officer Association

appreciates the opportunity to comment on the budget proposal for fiscal year 1995.

I am Sergeant Major Mike Ouellette, United States Army, Retired, Director of Legislative Affairs for NCOA. With me today is Mr. Larry Rhea, the association's Deputy Director of Legislative Affairs. Together we represent an association divided in membership between those who continue to serve in the active and reserve components of the armed forces and veterans who have left the services after fulfilling their military obligation.

I will make a number of comments and recommendations concerning defense matters and Mr. Rhea will make a brief presentation concerning the VA portion of the budget.

Mr. Chairman, the association has submitted an in-depth statement that I respectfully request be entered into today's record of proceedings and you have already indicated that that would be done. Thank you.

Mr. Chairman, NCOA is most appreciative of the work done in Congress last year to obtain a pay raise for military personnel; a cost of living adjustment, or COLA, for military retirees; and transition benefits for members of the guard and reserve. The actions of Congress were particularly noteworthy when one considers the bleakness of the situation in early 1993.

Yet with all the accomplishments, there continue to be threats aimed at reducing or eliminating COLAs for military retirees and for new military hires. The commissary benefit for military retirees looked as if it would be severely altered or even eliminated.

All in all, it was a difficult year for many former military members and was a time when many association members expressed a loss of confidence in the government's desire or ability to adequately compensate them for their service or to live up to the promises made in the military retirement package. In the same light, active duty members are concerned that their retirement incentives will not be available upon retirement.

The next concern expressed by the association although not directly addressed in the fiscal year 1995 budget is being brought to the attention of committee in an effort to point out that continued efforts to minimize pay raise or delayed COLAs may simply not be a warranted course of action.

Because of the many threats on pay and compensation of active duty and retired military members, it is implied that many Members of the administration and Congress feel that military targets of opportunity are so well off that they can withstand such efforts. In vivid contrast, the defense commissary agency or DCA has recently released data that tells a completely different story.

DCA reports that in fiscal year 1993 the commissary system redeemed in excess of \$27 million in food stamps and another \$15 million in women infant and children, or WIC, vouchers.

Since the eligible commissary patronage base primarily includes those groups being targeted for minimal pay raises and delayed COLAs, it seems appropriate that many opinions have to be changed.

NCOA is extremely disappointed that the fiscal year 1995 budget proposes to eliminate Impact Aid (b) student funding and also the impact aid funds paid to communities for the loss of tax revenue

associated with the presence of a military facility. The association sees the local school districts taking action to obtain enrollment fees for the children of military families to compensate the school districts for providing the necessary educational levels.

Mr. Chairman, the President recently stated his commitment to a quality armed forces and the need to provide high quality training. In doing so, the well-being of those men and women who make up the armed forces must be maintained.

This administration simply cannot have it both ways. In this regard, the proposed 1.6 percent pay raise will only serve to widen the gap between military and civilian salaries, which currently stands at 12.3 percent.

Mr. Chairman, NCOA's concerns with the many threats is that the readiness levels expected of the armed forces will be diminished if the recruitment and retention capabilities of the military services cannot be maintained.

Mr. Chairman, thank you for the committee's time and I will be followed by Mr. Rhea.

Mr. RHEA. Thank you, Mr. Chairman. Good morning. It is a pleasure for me to appear and present NCOA's view on the 1995 budget proposals that pertain to the Department of Veterans Affairs.

At the very onset of my remarks, I want to publicly state the association's deep appreciation to Secretary Brown and his staff. It is no secret that veterans admire and respect the man greatly. In simple terms, among veterans, Secretary Brown is regarded as a "veteran's veteran."

There is also no question that the Secretary and the Department of Veterans Affairs devoted substantial effort to the budget. Quite obviously, much time and attention was required. And equally obvious are the difficult realities that confronted the Secretary and his staff.

NCOA is appreciative that a 3 percent cost of living allowance for compensation beneficiaries is provided in the budget based upon the anticipated change in the consumer price index. NCOA supports this adjustment for compensation beneficiaries.

Likewise, we appreciate the increase in readjustment benefits authority and the start up costs for the new cemetery in Seattle and land acquisition for three other cemeteries. Also, the modest increase this budget provides in full-time employees for the national cemetery system is appreciated.

Hopefully, this will be the start of a positive trend in cemetery construction in the future. Although these are positive aspects, it cannot go without comment that the VA still projects cemetery system equipment backlogs to increase to \$8 million in 1995, from \$5 million in 1994.

Much of the VA budget obviously was shaped by the biggest challenge facing the Department, that of improving VA's health care delivery system so that VA can compete successfully in the anticipated new environment of national health care reform.

It is ironic and troubling that at the precise time efforts should be being made to permit VA to become an attractive health care alternative, the VA budget seems to be heading in the other direc-

tion, despite the President's assurances that the integrity and continuity of VA system would be maintained.

The solution this budget offers to make VA competitive in national health care reform is to cut nearly 4,000 health care employees in fiscal year 1995 as the initial step to cut more than 26,000 employees from VA over the next 5 years. The intended cut for 1995 was over 9,000 employees, of which approximately 4,500 have been waived. But trying to convince veterans that dodging one bullet is a good thing belies the fact that the reduction trend in medical care personnel continues.

The impact of this budget on the veterans health administration goes well beyond personnel. Medical construction is slashed from \$643.5 million in 1994 to \$270.4 million in 1995. Medical research was tapped to the tune of \$41 million less than the \$252 million in 1994. NCOA believes that these reductions will each more seriously reduce the talent and clinical services capability of the VA, a capability that we believe it can ill afford to lose.

While the budget cites a \$500 million increase in medical care of the total \$16.1 million for the Veterans Health Administration, more than 20 percent, some \$111 million of the \$500 million increase is through projected savings of the National Performance Review, IG recommendations and other management improvements within the VA.

NCOA believes that this is creating a false impression because historically savings projected are rarely achieved. It is questionable if some of the projected savings are even legal to pursue. NCOA is also concerned about the supposedly off budget \$1 billion to the health care investment fund.

In regards to all of this, Mr. Chairman, NCOA does not believe that the current VA health care system can be essentially forsaken while betting on a reformed national health care system that may never come. The implication of the fiscal year 1995 VA budget is that veterans health care will be held hostage to the National Health Security Act.

This budget's treatment of the veterans benefits administration follows essentially the same lines as veteran health care. The spending plan calls for another 622 employees to be dropped from VA's benefits division while veterans' claims for compensation, pension, and education benefits are piling up at astronomical rates.

VA projects that nearly 900,000 unprocessed claims will be backlogged by October of 1994. A veteran can expect to wait an average of 235 days for an initial claims decision. By VA's own estimates, veteran appellants can expect to wait upwards of 1,700 days if they appeal a claims decision to the Board of Veterans Appeals and currently some 40,000 cases are before the board of veterans appeal.

NCOA is certainly aware, Mr. Chairman, that there are no quick, easy fixes to immediately reverse the situation that now confronts the VA.

NCOA would say, though, that the veterans of this Nation have sacrificed and are continuing to sacrifice as programs, benefits, and medical care that were promised have continually declined or become virtually nonexistent for some. In the association's prepared statement, we have offered some additional viewpoints and recommendations regarding this budget.

In closing, Mr. Chairman, NCOA fully believes that this committee will strive to do what is right for the Nation in the face of many competing national priorities. NCOA's only request is that this committee strive to do what is right and fair for the veterans of this Nation and specifically we ask that as you undertake the difficult task that is ahead of you that you be guided by a purpose and philosophy that would truly restore pride, dignity, and honor to the term "veteran."

Thank you, Mr. Chairman.

[The prepared statement of Michael F. Ouellette and Larry D. Rhea follows:]

PREPARED STATEMENT OF SGT. MAJ. MICHAEL F. OUELLETTE, DIRECTOR OF LEGISLATIVE AFFAIRS AND LARRY D. RHEA, DEPUTY DIRECTOR OF LEGISLATIVE AFFAIRS, NON COMMISSIONED OFFICERS ASSOCIATION

Mr. Chairman, the Non Commissioned Officers Association (NCOA) is sincerely grateful to the committee for this opportunity to comment on the budget proposals for Fiscal Year 1995. I am Sgt Maj "Mike" Ouellette, USA, (Ret), Director of Legislative Affairs for NCOA. With me today is Mr. Barry D. Rhea, the Association's Deputy Director of Legislative Affairs. Together we represent an Association divided in membership between those who continue to serve in the active and reserve components of the armed forces and veterans who have left the services after fulfilling their military obligation. Accordingly, our comments today will address both Defense and Veterans programs.

SACRIFICE

The common thread that binds the members of the Non Commissioned Officers Association together is service to the nation. A major part of that service is sacrifice. For the active military member, that sacrifice manifests in family separations, frequent relocations, hazardous duty, occasionally poor living conditions, etc. For veterans the sacrifices too often are personal health and economic well-being. Yet, for all the sacrifices they have already made, veterans and military personnel remain ready to do more if what they are being asked to do is perceived as being fair.

Unfortunately, if the 2d Session of the 103rd Congress proceeds in the same fashion as did the 1st Session, virtually every category of NCOA members will continue to voice their displeasure with the efforts of Congress to single them out in support of budget deficit reduction initiatives. They see such actions as a complete disregard of the Administration and the Congress to live up to or meet the "promises" made as a result of military service and or retirement. Congress would experience the same out-break of emotion if in the years to come citizens performed community service as part of the National Service Program only to find that their earned educational benefits had been reduced or eliminated when needed. The major thrust of this statement will address the concerns NCOA members will have with many of the proposals contained in the Administration's FY 1995 Budget.

DEFENSE PROGRAMS

Mr. Chairman, NCOA's primary areas of concern with the Department of Defense (DoD) portion of the FY 1995 Budget have a direct impact on the financial well-being of the members of the military services. Prior to visiting the specific areas of concern, the Association would again this year like to focus on President Clinton's economic plan released in early 1993 entitled "A Vision of Change for America." Mr. Clinton's plan specified a number of priorities in the area of National Defense that follow:

- Unquestioned American military power remains essential to the success of our diplomacy and to strengthening our international relationships.
- Reducing the size of the military to provide funds for other needs, is not our purpose.
- The forces we design will continue to be built on the superb capabilities and training of our military personnel.
- As we reduce the size of our forces, we must repay the debt of gratitude we owe to the men and women in the services who have served their nation over the past 45 years.

The President cannot have it both ways. If the stated priorities are to be met, there is a price tag which must also be met if the desired high state of readiness is to be realized and maintained.

MILITARY PERSONNEL ACCOUNTS

NCOA is somewhat pleased that the Administration and many Members of the Congress have slowed the rush toward finding ways and means to reduce the defense personnel strengths beyond the targets previously established. Although the military services are faced with severe personnel reductions that many Members of Congress fear are much too large, there are still countless efforts made to maintain stability within the services. Last year saw Congress pass a 2.2 percent pay raise for military personnel when the intent of the Administration was to impose a pay freeze. All military retirees will see a COLA in 1994 although the payment date is delayed until April 1, 1994. A transition benefit package was approved for members of the Guard and Reserve who were being affected by the drawdown. Improved Temporary Living Allowances and Expenses were realized. However, despite the solid efforts of the Congress to stand-up for members and former members of the military services, there were still a good number of serious efforts to minimize, reduce and even eliminate many of the program improvements Congress had supported. These continued threats must stop if this Nation expects to have a quality "fighting force" when needed.

MILITARY PAY AND ALLOWANCES

1993 was a year of continuous threats to the active duty and retiree military communities. Initially, there was a military and federal civilian proposed pay freeze and a plan to provide reduced COLAs with a monetary cap for the under age 62 military retirees. Later in the year, the Penny/Kasich amendment would have deferred retired pay COLAs for all new hires until age 62. Although this threat was defeated by close vote in the House and a 2.2 percent pay raise and delayed military retiree COLAs became realities, military members are telling this Association that they are rapidly losing confidence in the government's desire or ability to adequately compensate them for their service or to "live-up" to the promises contained in the military retirement package.

The proposed 1.6 percent programmed pay raise is just such an example. President Clinton's five-year plan for military pay includes a 1.6 percent military pay raise in FY 1995 followed by 2.2 percent pay raise in FY 1996 and then a pay raise for three straight years in the amount of 2.5 percent. In actuality, this pay schedule will only serve to widen the gap between military and civilian salaries which currently stands at 12.3 percent. Any difference between the two salaries widens every year that the government gives military members smaller pay raises than those awarded in the private sector. Consequently, many experts feel this gap will expand to 20.8 percent by 1999. In addition to having to withstand the increased pay gap, military people are being faced with tax increases, proposed enrollment fees and office visit charges for family member health care, and taxation of certain allowances, recently increased by Congress, that were previously non-taxable and continuous attempts to defer retired pay COLAs until age 62. NCOA simply refuses to believe that Congress will stand-by and watch military people and their families receive such shabby treatment.

MILITARY RETIREE "THREATS"

The military retiree is by far the class of people being hit hardest or continually threatened by deficit reduction efforts. In order to describe the intensity of the threats, one only has to recap the actions of 1993 and early 1994:

- In early 1993, Congress proposed in the FY 1994 Budget Resolution that military retiree COLAs be reduced for those under age 62 with a one-year cap of \$400.
- COLAs were eventually approved by Congress; however, were delayed for a period of 39 months over the next five years while federal civilian employee COLAs were only being delay 9 months.
- National Health Care Reform included the Military Health Plan which proposed military retirees pay enrollment fees and office visit charges that were more than what active duty members would pay.
- Base closings continued to restrict the military retirees accessibility to many retirement benefits, such as health care, exchange, commissary and MWR facilities, earned after many years of service to their country.
- Budget constraints caused the defense department to consider closing all stateside commissaries except for a few in isolated areas. There were threats of increasing

commissary surcharges for just military retirees from 5 percent to 10 percent and eventually 16 percent. There were also threats of locking military retirees out of all commissaries.

- Congress failed to respond to NCOA recommendations that military retirees need coverage under a dental plan. Currently they have no coverage.
- Military retirees participating in the Survivor Benefit Plan (SBP) were advised in December 1993 that they would be required to pay the higher SBP premiums on January 1, 1994, based on the 1994 COLA increase even though it did not take place until April 1, 1994.
- In early 1994, the Senate defeated the Kerrey/Brown Amendment in the Senate that would have deferred COLAs until age 62 for military retirees earning more than \$30,000 and for new military hires.

In short, military retirees served their country in good faith and set their lifestyles according to the military retirement benefit package that was "promised" to them for their services. NCOA is appalled that this group should be the constant targets of deficit reduction initiatives. They have earned and deserve the 100 percent devotion of the government and the people who employed them for reasons of National Security. Active-duty personnel are completely aware of what the military retiree community is going through and this Association has absolutely no reservations in telling this committee that these threats will cause many of those currently serving to rethink their military career aspirations. In the end, the government may no longer be able to sustain the minimal fighting forces needed to meet the desired level national security.

TAX REFORM RECOMMENDATIONS

Although the subject of tax reform does not come under the jurisdiction of this committee, the expansion of Earned Income Credit (EIC) and Supplemental Security Income (SSI) to eligible military members serving in overseas areas continues to be inequity issues that NCOA urges the Congress to reverse. Notwithstanding the fact that EIC tax reform was accomplished in 1993, military members remain ineligible simply because they are serving in overseas areas at the direction of the government. Even though the SSI program will come under the close scrutiny of Congress in 1994 because of suspected fraudulent activity, NCOA continues to urge expansion to overseas eligible military families, with authentication of eligibility being made by military physicians and social workers assigned to community services offices. NCOA simply wants the members of this committee to be aware that military personnel continue to be treated inequitably under the terms of these two programs.

FOOD STAMP REDEMPTIONS IN COMMISSARIES

The next concern expressed by the Association, although not directly addressed in the FY 1995 budget, is being brought to the attention of the committee in an effort to point-out that continued efforts to minimize pay raise or delay COLAs may simply not be a warranted course of action. Because of the many threats on the pay and compensation of active-duty and retired military members, it is implied that many members of the Administration and Congress feel that the military targets of opportunity are so well off that they can withstand such efforts. In vivid contrast, the Defense Commissary Agency (DeCA) has recently released data that tells a completely different story. DeCA reports that in FY 1993 the commissary system redeemed \$27,365,492.00 in Food Stamps and another \$15,221,318.00 in Women, Infant and Children (WIC) vouchers. Since the eligible commissary patronage base primarily includes those groups being targeted for minimal pay raises and delayed COLAs, it seems appropriate that many opinions have to be changed.

IMPACT AID PROGRAM CUTS

As in past years, NCOA continues to be concerned with the continual attempts to eliminate Impact Aid funding for military dependents ("b" students). This year the situation has become much more critical since the FY 1995 budget also identifies the Impact Aid for federal property as a program to be eliminated. NCOA implores this committee to study the consequences of such budget cuts before taking definitive action. The Impact Aid program is absolutely necessary and directly proportionate to the quality of education civilian school districts can deliver to military dependent students. With the loss of the impact aid "b" student program, NCOA anticipates that the impacted school districts will attempt to pass the cost of educating military students on to either the defense department, or worse yet, the military parents themselves in the form of enrollment fees that could very well be as high

as \$800 to \$1,000 per student, per year. Military families simply cannot shoulder further financial responsibilities within their targeted minimized budget.

SUMMARY

Mr. Chairman, in commenting on the defense portion of the FY 1995 Budget, NCOA has hoped to make the point that the "sacrifices" being levied on the military community will ultimately impact heavily on the readiness capabilities of the military services. Consequently to take from an old oil filter commercial, it has become a "pay me now or pay me later" situation. NCOA asks only that this committee does the right thing.

VETERANS

Mr. Chairman, one of the prevailing themes during the 1992 Presidential campaign and throughout the budget and legislative activities of the 1st Session of the 103rd Congress was that of "shared sacrifice." As NCOA indicated before this Committee on March 5, 1993, few people know more intimately the meaning of sacrifice than those who are serving or have served in the Armed Forces. Yet, despite the freely given sacrifices just for the privilege and high honor of serving in the Nation's Armed Forces, NCOA indicated to you last year that the patriotic veterans of this country were willing to continue to carry their share of the load. The one question NCOA laid before this Committee was to be mindful of and to carefully consider "what is fair" in the difficult deliberations that confronted the Committee and the Congress during the First Session. NCOA specifically requested that veterans not be singled out for a special series of cuts just because they were veterans.

CHANGE

Mr. Chairman, it is abundantly clear, the rhetoric notwithstanding, that veterans remain the convenient, politically correct target of opportunity. It is an understatement to say that the continuing trend to lay at the feet of veterans, those who have honorably, faithfully, and dutifully served this Nation in peace and war, a disproportionate burden to cure the Nation's financial ills is disturbing. More accurately, *the continuing imposition on rightfully and justly earned veterans benefits and programs should be characterized as sorrowful and a breach of the faith that, up until recent years, had bonded the Nation with its veterans.*

In addition to "shared sacrifice" and doing "what is fair," another theme has been echoing across the country for more than two years. It occupied the political landscape throughout the 1992 Presidential campaign and it has been the predominate contention of political speeches and posturing since that time. All about we have heard and are continuing to hear the clamor for "change."

With regard to veterans Mr. Chairman, NCOA respectfully submits that change is also in order. Veterans, their dependents and survivors are indeed ready for and would welcome change. *Change from the annual attacks on their pay, benefits, and programs that were promised and earned through their blood, sweat and tears. Change from being the politically correct whipping post for a national deficit and debt that veterans did not create nor cause to happen.* Veterans would welcome, with deep gratitude, a change back to the place of honor, dignity, and esteem that was once accorded by a grateful Nation for honorable service in the Armed Forces.

To understand why veterans have become caustic in their assessment of the spoken word and the actual action taken, an examination of the trends over the past 15 or more years is enlightening. When the trend that has marked veterans programs and benefits is displayed, it also lends understanding as to why veterans have a jaundiced view and are somewhat skeptical regarding the promises associated with reform initiatives that are being contemplated.

Since 1965, a decreasing priority has been placed on veterans spending. Since 1977, there has been a constant spending reduction in veterans programs while the outlays for other national programs (social security, income security, Medicare, non-veteran health care and non-veteran educational benefits) have risen dramatically. Today, overall veteran spending, as a factor of total federal outlays, is less than 3 percent.

Over the past ten years, virtually every major support program for veterans has been cut. User fees have been added in education, home loan guaranty and medical care programs. Restrictions have been placed on eligibility for medical care services, vocational rehabilitation, burial and grave marker eligibility. Shamefully, even the benefits for veterans disabled through military service have been eroded.

The trends indicated above have been imposed in the veteran medical care arena also, but with, perhaps, much greater impact and consequence. Eligibility based on

old age was terminated in 1986 leaving many elderly veterans to fend for themselves. Medical care for other veterans is now means tested. Literally, hundreds of thousands of veterans have been denied promised medical care while those eligible are confronted with a system degraded by infrastructure deficiencies, insufficient funding and staffing shortages.

There should be no doubt as to why veterans believe they have been betrayed. Also, there should be no question that veterans have already sacrificed. The sacrifice associated with their service in uniform was freely and unselfishly given. Nonetheless, veterans are continuing to sacrifice as the programs, benefits, and care, that was promised in recognition of and appreciation for their service to the Nation, are constantly diminishing or have become nonexistent for some.

Budget deficits and the national debt are of concern to every taxpaying citizen and veterans are no exception. The solution to the problem, however, should not be a continuance of the disproportionate burden already imposed on veterans for many years.

MEDICAL CARE

Much of the VA budget was obviously shaped by the biggest challenge facing the department, that of improving VA's health care delivery system so that VA can compete successfully in the anticipated new environment of health-care reform. NCOA appreciates the emphasis that Secretary Brown has placed on ambulatory care in this budget and hopes that this emphasis continues in the future. NCOA does believe that it is time now to reform the eligibility rules for VA health care to allow VA to provide ambulatory care to those who can now only be treated as inpatients. NCOA also encourages the committee to examine the rationale and criteria used by the VA for selecting sites for ambulatory care improvement along with construction criteria for those sites.

Stated frankly though, there are some things regarding medical care that concern NCOA greatly in this budget, not the least of which is the decrease in medical care personnel by 3,680, from 205,188 to 201,508, and the trend that continues. The intended cut was over 9,000 of which 4,500 has been waived. But trying to convince veterans that dodging one bullet is a good thing belies the fact that the reduction trend continues. NCOA is also concerned by the inattention that this budget gives to equipment upgrades. Combined with the decline from \$252 million to \$211 million in research, the Association believes that these reductions will reduce talent and clinical service capability that VA can ill afford to lose.

It is also noted that budget authority for construction programs has dropped by more than half, from 643.5 million to 270.4 million.

While the budget cites a \$500 million increase, more than 20%, some \$111 million of the \$500 million is through projected savings of the National Performance Review, IG recommendations and management improvements. NCOA believes that this is creating a false impression because historically savings projected are rarely achieved. Of concern also, is the supposedly "Off Budget" \$1 billion to the health care investment fund.

In regards to all of this, NCOA does not believe that the current VA health care system can be essentially forsaken while betting on a reformed national system that may never come. This implication in the FY95 VA budget is that veteran health care will be held hostage to the President's National Health Security Act.

VETERANS BENEFIT ADMINISTRATION

Currently, some 535,000 (*more than half a million*) C&P claims are pending an original decision by the VA for compensation. Properly submitted original claims now take nearly 200 days for an initial decision. By VA's own estimates the number of C&P cases pending is projected to increase to nearly 900,000 by the end of 1995 and, concurrently, the time to process and render an original decision is projected to increase.

Currently, more than 40,000 cases are before the BVA and average response time is approaching 700 days. Without any changes, by the end of 1995 appellants can expect response time to exceed 1700 days.

Along with the situation described above, NCOA respectfully reminds the Committee of the following impactors which must be considered in analyzing the FY95 VA Budget request:

- The C&P program will continue to experience an increase in caseload for veterans, primarily as a result of downsizing active military forces.
- As a factor of pre-discharge counseling (TAP & DTAP), the complexity of original claims has increased and will continue to become more complex as RO's are confronted with more disabilities per claim.

- The diseases and medical conditions for which initial claims are allowed is expanding.
- RO's, by mandate of the Court of Veterans Appeal (CVA), are required to address every contention and related issue in each claim against applicable regulations and CVA rulings.
- VA personnel costs are subjected to the discretionary spending restraints of OBRA 93.

NCOA believes that the FY95 VA Budget falls far short of that which is required for the VBA and BVA. *Not only is the budget insufficient to reverse the downward trend of the last several years, if enacted as proposed, the budget will only escalate the spiral.*

The FY95 VA Budget seeks 4,163 full time employees (FTE) for the C&P and education portions of VBA, a reduction of 342 FTE from the 1994 estimate. This is not inconsequential when considered in context with the stated goal of the VA, to improve the accuracy and timeliness of claims processing and decisions. Certainly, many of the procedural changes previously addressed by the House, along with the recommendations of the Blue Ribbon Panel, are needed and would help reverse the situation currently confronting the VA. But the bottom line is that a minimum number of qualified employees are needed to do the work. *NCOA does not believe that a larger, more complex workload in FY95 can be undertaken with fewer employees and expect to achieve anything more than dismal results.*

It is noted that the budget provides for 449 FTE's for BVA in FY95, three more than provided in 1994. *Optimistically assuming that BVA decisions in FY95 will average 60 per FTE (59.9 in FY93), it does not take a mathematical wizard to determine that virtually no reduction will be realized in the 40,000 cases before the Board.* It is important to remember that decisions per FTE was 114.7 in FY90. The decline, in part, is a factor of the impactors noted above. Equally significant is the turnover experienced by the BVA and the "train-up" time required for new staff to reach proficiency.

NCOA requests that this Committee, consider funding VBA's personnel costs for veterans' services, compensation, pension, education and vocational rehabilitation and counseling through transfers from mandatory spending accounts.

NCOA requests that, as a minimum, the 342 FTE deleted by the FY95 budget be restored.

NCOA requests that the Committee include a line item in VBA's budget for VBA-wide training. NCOA supports the Independent Budget of Veterans Organization (IBVO) estimates of \$8 million for this purpose.

NCOA requests that the issue of salary disparity between the BVA and Administrative Law Judges (ALJ) be addressed and acted upon to close the gap. As long as the disparity exists, the decimation of BVA's most talented members will continue in favor of the more lucrative ALJ positions. NCOA supports the IBVO cost estimate of approximately \$700,000 for FY95 for BVA-ALJ pay comparability.

NCOA recommends that the Committee consider additional BVA FTE from 446 to a level of 632 as recommended by the IBVO.

VETERANS CONCLUSION

Mr. Chairman, as you and the distinguished members of the Committee debate the difficult work before you during 1994, NCOA requests again that you not forget the sacrifices already made by veterans. NCOA requests that veterans benefits and programs not be held hostage to new initiatives and social programs for groups and individuals who have sacrificed far less than veterans, or not at all, for this Nation. Above all, *NCOA requests during the upcoming months that the Committee's efforts be guided by a philosophy and purpose that will restore pride, dignity, and honor to the term "veteran."* Finally, *NCOA requests that the "special covenant between the Nation and veterans," which existed at one time in our Nation's history, be restored and honored with alacrity.*

Chairman SABO. We thank you for your excellent testimony and we will try and make the kind of judgments that you are suggesting that we should make. We have lots of tough trade-offs to make. We all know the importance and obligation we have both legally and morally to veterans and we will do our best to deal with those issues.

Patsy?

Mrs. MINK. I want to concur with what the chairman has said. I have a very large constituency of military as well as veterans. I share the concerns you have enumerated; the delayed COLA which was not the same as the civilian retirees is a very critical point at issue, I have joined with others in hoping we can correct that matter in this Congress.

The threats of closures of commissaries is a concern in my constituency. The matter of impact aid, hopefully we have again addressed. As you know, administrations over the last 20 years have sought to eliminate that program and the Congress has brought it back.

The Education and Labor Committee in its reauthorization of the Elementary/Secondary Education Act has restored impact aid for military As and Bs, so I assure you at least at this juncture in terms of authorization it is back in the law and the next fight, of course, will be in the Appropriations Committees.

With regard to veterans, I have a very unique problem in my State. We have been fighting for the last 15 or 20 years for a VA Hospital. We remain one of the only two States without a VA Hospital and we have been assured that we would have one. We even have the site.

We have design moneys that have been appropriated. We have the name for the facility. In this budget it has been stricken out.

So the veterans are alarmed that, once again, promises made to them that veterans health care would be provided for is being put to the side. And so we have many concerns in common and I want you to know that the points you have raised today will be very much in our deliberations as we work on the budget resolution.

Thank you very much.

Mr. RHEA. Could I respond to Mrs. Mink's remarks, please?

Chairman SABO. Sure.

Mr. RHEA. In regards to construction, certainly I would think it would be instructive to the committee if the committee would look at the criteria that the VA used in regards to the construction projects and so forth, particularly where there is some construction in the budget for new research construction.

While we are essentially gutting research money for research, mysteriously two very questionable construction projects are in the budget and by the scoring of VA alone, one of them didn't even rate on their scoring chart.

And there are other questionable things in there. I would just encourage the committee to look at the criteria that the VA has used to establish the priorities and situations such as you describe in your own district that I think could be changed.

Chairman SABO. We thank you.

Mr. OUELLETTE. Thank you, Mr. Chairman.

Chairman SABO. Mr. Uldrich from the Concord Coalition, Minnesota Chapter. Your entire statement will be put in the record.

STATEMENT OF JACK ULDRICH, THE CONCORD COALITION, MINNESOTA CHAPTER CITIZENS FOR AMERICA'S FUTURE

Mr. ULDRICH. Thank you, Mr. Chairman. Thank you for inviting me to testify before the House Budget Committee.

On behalf of the 4,000 members of the Minnesota Chapter of the Concord Coalition and the 150,000 members nationwide, I welcome the opportunity to participate in the debate over the President's 1995 budget.

The President's 1995 budget continues the progress started last year towards reducing the deficit, but it does not finish the job. More importantly, it does not provide a credible, comprehensive plan for eliminating the deficit by the end of the century or even in the foreseeable future. With or without health care reform, the administration's budget never puts the deficit on a path towards zero.

Annual budget deficits, which range from \$166 billion to \$365 billion for the next 10 years, are unacceptable. All the more so, when the hundreds of billions that are being borrowed from Social Security and other trusts funds are taken into consideration.

Congress cannot continue to pile this amount of debt onto the next generation year after year. We must and we can do better.

Speaking on behalf of the Coalition, I urge the members of this committee and Congress not to ease up on the task of deficit elimination. It is imperative that you take advantage of the window of opportunity created by the current economic expansion to finish the job that was begun in 1993. The time is right for more, not less, deficit reduction.

Our members don't shrink from doing exactly what they ask of their representatives. The Concord Coalition's Zero Deficit Plan, based largely on a survey of our members, represents the first grassroots deficit reduction plan in the history of the country. It shows how the budget can be balanced by the year 2000, through a gradual and equitable process of fair, shared sacrifice.

Foremost in the plan is the implementation of a means test on entitlements—particularly Social Security and Medicare. Social Security is the biggest consumption item in the Federal budget and the President's budget does not touch it. This has to change. Entitlements represent close to half of all government spending. If we are ever going to solve the deficit, entitlement reform must be part of the solution.

Our plan also recommends increasing the retirement age to 68, reforming the Federal pension system and reducing agricultural subsidies. The plan further identifies 50 specific domestic spending programs—and these savings amount to approximately \$29 billion—that can and must be cut. The administration's budget eliminates 115 different Federal programs and reduces an additional 185.

This is good, however, the savings are substantially less than our plan and, furthermore, these savings are not targeted for deficit reduction. To alleviate this "carve and spend" mentality, the Concord Coalition urges the enactment of strict enforcement measures, including separate spending caps on domestic programs and national security, and we also advocate a balanced budget amendment.

The bottom line is we haven't balanced the budget in the last 25 years and projections for the next 10 years show us never getting below \$180 billion. A balanced budget amendment is going to change the question you ask yourselves from "should we balance the budget" "to how do we balance the budget."

The option of doing nothing will no longer exist. The option of passing this buck on to our children will no longer exist.

The plan recommends increasing taxes. We favor gradually phasing in a 50 cent gas tax and higher taxes on alcohol and cigarettes. We also favor limiting the home mortgage interest deduction to \$12,000 for individuals and \$20,000 for couples.

The details of this plan have been laid out in "The Zero Deficit Plan: A Plan for Eliminating the Federal Budget Deficit by the Year 2000." I have asked that a copy of the plan be placed in the record.

Chairman SABO. Hold it a second. You don't mean the whole book?

Mr. ULDRICH. The executive summary.

Chairman SABO. Okay.

Mr. ULDRICH. Our members recognize that the Federal budget is so large that everyone has to be part of the answer, including the middle class. To ask the middle class to sacrifice now is simply to be an advocate for its own long-term interests.

The members of the Concord Coalition in Minnesota and across the country are willing to accept short-term sacrifice for the purpose of achieving long-term economic growth. More importantly, we are willing to support you when you make these difficult choices.

I want to repeat that because that really gets to the heart of what the Concord Coalition is seeking to do. We will support you when you make the difficult choices.

Just two nights ago, I had a town meeting and one of our members, Larry Zazzera, came up to me afterwards when he found out I was going to be testifying and he said, "tell them [Congress] that if there is an emergency again this year to have the courage to ask me to pay for it and not pass that buck on to my children. I don't want my children paying for what our generation should be paying."

Our members have educated themselves about this problem and are educating others. We are seeking to create the constituency that will support you in your efforts to make the difficult choices necessary to reduce the deficit. The job will not be easy. We can't do it alone and we need your help in engaging the public in an honest dialogue.

We can no longer afford to hold America's future hostage to elected officials' own fantasies about how the deficit can be solved without asking anything from anyone. The time for finger-pointing and scapegoating is gone. The politics of denial must cease and the surest cure for the politics of denial is honest discussion.

I have talked to a lot of my friends and they are growing increasingly cynical and the younger generations are becoming disaffected and I think the surest cure for this is simply to tell the truth.

What we are asking is for you to help us dispel the myths and the idea that there exists an easy solution. Help us educate the American public.

Time is running out. A \$4.4 trillion debt will be easier to finance than a \$6 trillion debt.

Our children's and grandchildren's futures hang in the balance. It has been said that the ultimate test of a moral society is the kind of world we leave our children. We are presently on a course

to fail that test. Let us begin making the sacrifices now, as the economy is expanding. The time is right.

I truly believe that deficit reduction is no longer just an economic imperative. It is a moral obligation. I fear that if we continue to do nothing, we will, in the not-too-distant future face the prospect of generational warfare. Eventually, our children are going to weigh our material affluence against the challenges we faced, and they will see how few sacrifices we made for their benefit.

Rather than bear our burden through higher taxes or reduced spending on their behalf, they are going to choose instead to cut our benefits—drastically.

Help us avoid this scenario by putting the deficit on a path towards zero and eliminating it by the year 2000. There is simply no moral rationale for mortgaging our future and risking social chaos just because we are unwilling to give up some consumption today.

Mr. Chairman, thank you.

[The prepared statement of Jack Uldrich follows:]

PREPARED STATEMENT OF JACK ULDRICH, THE CONCORD COALITION, MINNESOTA
CHAPTER

Thank you for inviting me to testify before the House Budget Committee. On behalf of the 4000 members of Minnesota chapter of the Concord Coalition, and the 150,000 members of the Coalition nation-wide, I welcome the opportunity to participate in the debate over the president's budget.

The President's 1995 budget continues the progress started last year towards reducing the deficit, but it does not finish the job. More importantly, it does not provide a credible, comprehensive plan for eliminating the deficit by the end of the century or even in the foreseeable future. With or without health care reform, the administration's budget never puts the deficit on a path towards zero.

Annual budget deficits, which range from \$166 billion to \$365 billion for the next ten years, are unacceptable. All the more so, when the hundreds of billions that are being borrowed from Social Security and other trusts funds are taken into account. Congress cannot continue to pile this amount of debt onto the next generation year after year. We must, and we can, do better.

Speaking on behalf of all Coalition members, I urge the members of this committee and Congress not to ease up on the task of eliminating deficit. It is imperative that you take advantage of the window of opportunity created by the current economic expansion to finish the job begun in 1993. The time is right for more, not less, deficit reduction.

Our members do not shrink from doing exactly what they ask of their representatives. The Coalition's *Zero Deficit Plan*, based largely on a survey of our members, represents the first grass roots deficit reduction plan in the history of this country. It shows how the budget can be balanced by the year 2000, through a gradual and equitable process of fair, shared sacrifice.

Foremost in the plan is the implementation of a means test on entitlements—particularly on Social Security and Medicare. Social Security is the biggest consumption item in the federal budget and the president's budget does not touch it. This must change. Entitlements represent 48 percent of all government spending. If we are ever going to solve the deficit, entitlement reform must be part of the solution.

Our plan recommends increasing the retirement age to 68; reforming the federal pension system and reducing agricultural subsidies.

The plan identifies 50 specific programs that can—and must be—cut. The administration's budget eliminates 115 different federal programs and reduces an additional 185. This is good, however the savings are substantially less than our plan. Furthermore, these savings are not targeted for deficit reduction. To alleviate this "carve and spend" mentality, the Concord Coalition urges Congress to enact strict enforcement measures, including separate spending caps on domestic programs and national security, and a balanced budget amendment.

The plan recommends increasing taxes. We favor gradually phasing in a fifty cent gas tax; and higher taxes on alcohol and cigarettes. We also favor limiting the home mortgage interest deduction to \$12,000 for individuals and \$20,000 for couples.

The details of these proposals have been laid out in the Zero Deficit Plan: A Plan for Eliminating the Federal Budget Deficit by the Year 2000. I have asked that a copy of the plan be placed in the official record.

Our members recognize that the federal budget deficit is so large that everyone must be part of the solution—including the middle class. To ask the middle class to sacrifice now is simply to be an advocate of its own interests in the long run.

The members of the Concord Coalition in Minnesota and across the country are willing to accept short-term sacrifice for the purposes of achieving long term economic growth. More importantly, we are willing to support you when you make the difficult choices.

Our members have educated themselves about this problem and are educating others. We are seeking to create the constituency that will support you in your efforts to make the tough choices necessary to reduce the deficit. The job will not be easy and we need your help in engaging the public in an honest dialogue.

We can no longer afford to hold America's future hostage to elected officials own fantasies about how the deficit can be solved without asking anything from anyone. The time for fingerpointing and scapegoating is gone. The politics of denial must cease and the surest cure for the politics of denial is honest discussion.

Help us dispell the myths and the idea that there exists an easy solution. Help us educate the American public.

Time is running out. A \$4.4 trillion debt will be easier to finance than a \$6 trillion debt in the next century.

Our children's and grandchildren's futures hang in the balance. It has been said that the ultimate test of a moral society is the kind of world it leaves its children. We are presently on a course to fail that test. Let us begin making the sacrifices now—as the economy is expanding. The time is right.

Deficit reduction is not just an economic imperative, it is a moral obligation. I fear that if we continue to do nothing we will, in the not-too-distant future, face the prospect of generational warfare. Eventually, our children will weigh our material affluence against the challenges we faced, and they will see how few sacrifices we made for their benefit. They will see that our deficits went to finance present consumption, not investment; and rather than bear our burden in the form of higher taxes they will instead slash our government benefits.

Help us avoid this scenario by putting the deficit on a path towards zero and eliminating it by the year 2000.

There is simply no moral rationale for mortgaging our future or risking social chaos because we are unwilling to give up consumption today.

Thank you.

Chairman SABO. Thank you for your testimony.

I must say that I think what we did last year had significant impact, and we are moving forward on the basis of that program. We have deficits projected to grow to over \$600 billion. They are now down in the category from \$170 to \$180 billion in 1995.

Our most recent estimates from CBO indicate the deficit impact was over \$170 billion more than what we assumed when we passed the package in August of last year. We also, very importantly, have reversed what had been happening in the 1980's where total debt was growing in relationship to gross domestic product. We leveled that off and have begun on a decline.

Clearly, the biggest issue before us is getting a handle on health care costs, and that is 3.7 percent of GDP today, estimated to grow to 6.2 percent in 2004. We are struggling with that issue.

In part the tradeoff is between some reductions that might occur immediately, and you can use that to have long-term reform of the system, which in the long term can produce savings both to the public and the private sector.

Clearly, we have to continue to deal with the issue. However, I get a little apprehensive in this sort of a discussion if we overstate the case. The fact is the economy is responding to our program today. The economy is growing. That is one of the reasons the defi-

cit numbers are lower. And clearly, in the long term we are heavily dependent on a growing economy.

Mr. Greenspan was saying a few weeks ago kinder things about where the economy is today than we had in a long time. We have to make sure we keep economic growth in the economy functioning. We have got work ahead, but I am optimistic about the country.

Mr. ULDRICH. If I could respond to that, we certainly do applaud the President, for he has reduced the deficit. The problem is, we never get it below \$170 billion. And those projections go back up to \$365 billion within 10 years. When did such figures become acceptable?

What we are saying is, let's keep it on the path towards zero.

Chairman SABO. What is really driving it is health care, which is one of the issues that I hope we can find a solution to this year.

Mr. ULDRICH. I can also respond to that, citing CBO's own figures, the President said his health care plan was going to reduce the deficit. The CBO came out and said that is not going to be the case. His plan would increase the deficit. The Concord Coalition recognizes that health care is driving the deficit and health care reform has to be part of the solution. We simply ask that it be revenue neutral, if it is going to increase the deficit, we ask that we pay for it now.

Chairman SABO. Clearly, under our budget rules that has to be the case. We clearly have to use the updated version of the projected costs, as we deal with that issue. Under our rules, a plan that is not deficit neutral would be in violation of our budget rules, and as a matter of fact, I hope it goes beyond being budget neutral. Clearly, it has to put total impact on the deficit on a downward trend, not upward.

Mrs. Mink.

Mrs. MINK. Thank you very much.

I think one of the things that troubles me in the debates on the balanced budget and proposals like yours from the Concord Coalition is that it assumes a different system out of the Federal Government than what operates now for most States.

May I ask what State you are from? Is it Minnesota?

Mr. ULDRICH. It is.

Mrs. MINK. In Minnesota, how is the State budget dealt with in the legislature? Is there an operating budget as well as a capital improvement budget? And what is the debt in the State of Minnesota currently? Even though the budget may balance each year as the legislature deals with it, what is the amount of your State debt obligation, and how is it being met?

Mr. ULDRICH. I don't have figures for what Minnesota's debt is, but I would like to point out that the Concord Coalition recognizes that not all deficits are bad. The problem right now is that the deficits we are creating are going to finance consumption, not investment.

Mrs. MINK. I think it is very important, however, when we talk about a zero deficit, that we start off by making the distinctions that most ordinary citizens don't make in discussing the Federal budget, because they think we do the budget the same as they are accustomed to discussing it on a State level.

My State constitution provides for a debt limit, which is based upon the gross value assessment of all properties in the entire State. Whatever the gross value is of all properties, the State may not borrow more than a certain percentage of it.

But the concept of capital improvements being financed on a long-term basis, putting it on the backs of our children as we often hear, is what occurs in every State with respect to capital investments, whether it is a convention center or a bridge or a highway or whatever it is that the State determines is necessary.

By contrast, in the Federal arena, when we decide to do a huge capital improvement, one airplane, \$1 billion, it is in our budget, on an outlay basis. And therefore we carry forward a very huge deficit, much of it for capital expenditures.

And this unfortunately is the situation we are in right now with that \$4 trillion debt which was created primarily during the Reagan and Bush years, for which we are now being whipsawed, I feel in the discussion of a zero budget concept that there needs to be an educational preface so that the public can be made aware that we do our budget differently.

I think most of us want to see a balanced operating budget. But I am not prepared to vote for a balanced budget amendment that makes no distinction, makes no effort to explain the difference between what we buy in terms of a long-term investment and have to pay for on a long-term basis. It has to be reflected in the debt, just as we do on the State level.

This is why I think the debate now is so confused, and why it seems to be so polarized. It is because we haven't started off in an educational framework that everybody understands what they are talking about.

So I hope that you can assist us, because I certainly know that you are informed and well intentioned in your proposals.

Thank you very much.

Mr. ULDRICH. That is exactly what we are trying to do. We are out there attempting to educate the public. And in our own plan we do talk about investment, and the need for investment. Again, we are not simply attempting to balance the budget for its own sake. We believe by doing so that there will be positive benefits in terms of investment in the future and long-term growth, and that is why we seek this goal, not just to get it to zero for the sake of getting it to zero.

Chairman SABO. Thank you, Mr. Uldrich. We appreciate your taking the time and effort to come here this morning.

Mr. Tom Wacker of the National Telephone Cooperative Association.

STATEMENT OF TOM WACKER, GOVERNMENT AFFAIRS REPRESENTATIVE, NATIONAL TELEPHONE COOPERATIVE ASSOCIATION

Mr. WACKER. I appreciate this opportunity to discuss the current financing needs of the rural telecommunications industry, and think that in light of all that is going on in this industry that this discussion is critical.

I am Tom Wacker and I work as a Government Affairs Representative for the National Telephone Cooperative Association.

NTCA represents 500 members throughout the country that are small rural cooperative and commercial telephone systems. They essentially serve some of the most high-cost areas in the Nation, and to date I would estimate that probably 80 percent of them have borrowed from the REA system at some point to finance their operations.

As you prepare your budget resolution, we are asking that you keep three things in mind. Number one, that the REA program is more necessary than ever today.

Number two, that NTCA opposes the administration's REA budget proposals, which abscond on recent agreements between Congress itself and the industry.

And number three, that an appropriately REA-funded program is necessary in order to ensure that we are able to meet our universal telecommunications service objectives.

Since the creation of the REA telephone loan program in 1949, as you know, Congress has periodically adjusted the program to make sure it is meeting the needs of the country. Last fall, Congress and the administration and the industry all worked together to come up with an agreement that would restructure this program to meet those needs in the future.

The unique thing of this restructuring agreement was that it basically cut the subsidy cost of the program from \$44 million to \$13 million, yet at the same time we were able to increase the total loan levels up to \$620 million. So it is still very strong.

We can be proud of the infrastructure that is being deployed by this program. It is resulting in rural Americans enjoying improved education, improved access to health care, and improved business and government services. Clearly, the partnership is altering the destiny of rural America in a positive fashion.

As carriers of last resort, NTCA's members constantly confront new responsibilities such as acquiring systems, neighboring systems that may not be upgraded to the level that they should be. And the problem that we run into so often is that regulatory and legislative proposals seem to hinder their ability to meet these objectives.

The simple truth of the matter is that we really can't afford for this to happen any longer. Yet, it is a perfect example in the administration's 1995 budget proposal, which as I mentioned ignores the agreement we worked on all last year to try to hammer out what kind of a program we would have for the coming decade.

The program that the administration is now proposing would cut some \$90 million from the telephone program. This is from the same administration that is addicted to proclaiming the glories of an information highway, superhighway, and we really don't understand where they are coming from on some of those things. We recognize the debt dilemma as much as anybody does, and in fact, in addition to the cuts that were instituted last fall on the program, for the preceding 12 years the REA telephone loan program and the telephone industry have agreed to program freezes. And the real frustrating thing is, we always hear talk up here when you are talking about a lot of other programs, that if you aren't at least growing by the rate of inflation, that is considered a cut.

But we have been doing that. We haven't been growing by the rate of inflation. Yet we really don't seem to get a lot of regard for that. I am not necessarily referring to this committee, because it has always been quite helpful, but it is a concern that we have.

That is why I really am pleading with you today to remain cognizant of those sacrifices. While you are putting together this resolution, we just ask that you pay particular attention to a couple of things; that Federal telecommunications policies must acknowledge the unique needs of rural America.

Number two, that REA telephone loan program interest rates and capital must remain at appropriate levels to meet our needs for the future.

And number three, that the REA's staffing and technical services must remain in place.

I guess I would just say that I used to work up here on Capitol Hill, and so often you see programs that really don't work, don't work at all. But this is one of them that does. And I say that sincerely. I have worked with this program for 5 years with NTCA, and in its 45 years it has never had a loss due to default or any kind of abuse. So I hope that we can go with this and fund it at the level that was agreed to last year.

That concludes what I have to say.

[The prepared statement of Tom Wacker follows:]

PREPARED STATEMENT OF TOM WACKER, GOVERNMENT AFFAIRS REPRESENTATIVE,
NATIONAL TELEPHONE COOPERATIVE ASSOCIATION

SUMMARY

Considering the current telecommunications demands being made by the administration, Congress, and rural Americans, it is clear that the need for the Rural Electrification Administration's (REA) telephone loan program has never been greater. The National Telephone Cooperative Association (NTCA) opposes the administration's fiscal year (FY) 1995 budget proposal which absconds on the recent REA telephone loan program restructuring agreement reached between itself, the Congress and the rural local exchange carrier (LEC) industry. NTCA believes it is critical that, at the very least, the program's funding be preserved at the level established by that agreement. The program has carried out its mission, of both providing and improving rural telephone service, with distinction, for more than 45 years. If appropriately funded it will continue to do so well into the future. REA financing is critical to ensuring rural Americans enjoy the benefits of the telecommunications revolution currently sweeping the nation.

INTRODUCTION

It is a pleasure to have this opportunity to discuss the current financing needs of the rural LEC industry. In light of all that is occurring on the telecommunications front this discussion is urgently needed. I am Tom Wacker, and I work as a government affairs representative for the NTCA. NTCA is a national trade association representing nearly 500 small, rural cooperative and commercial telephone systems. These locally owned and operated LECs are situated throughout the nation.

NTCA's members, like most the country's independent LECs, evolved to serve the high cost rural areas of the nation. And there can be no doubt regarding the cost of providing telecommunications services to rural America. Just considering that these areas account for 40 percent of the nation's geographic area is convincing enough. Then add into the equation that the subscribers therein account for only 4.3 percent of the nation's total. It quickly becomes crystal clear why rural America is so costly to serve.

Congress recognized the financing dilemma confronting America's rural LECs as early as 1949. It was in that year that it amended the Rural Electrification Act (REA Act) to create the REA telephone loan program. And Congress planned for the future, understanding that rural America's telecommunications financing needs would

be ongoing. It charged the REA with responsibility for the making of low interest loans to both "...furnish and improve..." rural telephone service.

Subsequently, Congress has periodically amended the RE Act to ensure the original mission of the program is met. In 1971 the Rural Telephone Bank (RTB) was created as a supplemental source of direct loan financing. In 1973 the REA was provided with the ability to guarantee Federal Financing Bank (FFB) and private lender notes. And most recently, in 1993, the Congress established a fourth program lending facet, the REA Treasury fund.

The Rural Electrification Loan Restructuring Act (RELRA), which created the Treasury fund also completely restructured the REA telephone loan program. The initiative reduced the program's already minimal annual subsidy cost from \$44 million to less than \$13 million. At the same time the initiative strengthened the program for the challenges ahead. Interestingly this \$13 million in subsidy supports loan authorizations totalling more than \$620 million. To date, nearly 80 percent of NTCA's members have utilized REA's capital and technical assistance to one degree or another.

The infrastructure being deployed by a majority of rural LECs today is capable of providing state-of-the-art services such as two-way interactive video links. These services are changing the destiny of rural America. Through this technology, rural Americans are assured of improved education, health care access, and business and government services. REA's telephone loan program is financing a significant portion of such infrastructure enhancement. Because the program's cost is so low its authorization could easily be expanded to meet an increase in demand. It is critical that when preparing your 1995 budget resolution, you keep the REA telephone loan program in perspective. Just remember that the modest \$13 million spent today equates hundreds of millions in savings for us all in the future.

RESPONSIBILITIES CONFRONTING INDUSTRY ARE SUBSTANTIAL

The success of the private/public partnership represented by NTCA's members' use of the REA telephone loan program is obvious. This partnership boasts infrastructure of a highly sophisticated quality. With the assistance of REA capital, and technical standards advice, NTCA's members are leaders in modernizing their systems. And this financing partnership spawns a carrier-of-last-resort commitment. Yet new responsibilities continue to confront the industry. These responsibilities are both significant and costly.

One of the more significant such responsibilities facing the rural LEC industry involves the acquisition of neighboring rural service territories. Recently a number of the nation's largest LECs have placed their most unprofitable rural exchanges on the market. Most of these exchanges are severely in need of modernization. Subscribers in many of these areas have sought improved service for years. Now, small rural LECs, often with REA assistance, are able to respond to their appeals. The LEC/REA financing partnership is ensuring that our industry's carrier-of-last-resort commitment is being fulfilled. The result is the assurance for thousands of rural Americans that dramatically improved telephone service is finally on the horizon.

But the carrier-of-last-resort commitment is becoming increasingly difficult, if not impossible, to fulfill. Telecommunications related legislative and regulatory proposals currently are permeating Washington. Each could dramatically alter the manner in which rural LECs operate and rural subscribers are served.

Many of the restructuring initiatives propose to open up the entire urban and rural LEC industry to competition. Most give no recognition to the special needs of rural America which generally could not support a competitive telecommunications environment. The least harmful of such proposals simply fail to recognize these special needs. The most harmful advocate government financing of such competition. Government sponsorship of competitive providers is absolutely contrary to REA's long-standing policy against financing duplicative infrastructure. Government sponsored competition could jeopardize the solvency of rural America's carriers-of-last-resort. And the policy could also place REA loan security at risk.

Other initiatives are promoting the lifting of the telephone/cable crossownership ban. Still others would drop the remaining line of business restrictions currently imposed on the regional bell operating companies (RBOCS). All would have a profound impact on the Communications Act of 1934. These are not subjects to be approached lightly. NTCA sees as many pitfalls as opportunities evolving from such initiatives.

COORDINATION, COOPERATION, EDUCATION

NTCA is concerned with the lack of coordination and cooperation that appear to be representative of federal telecommunications policy today. The courts, Congress and the administration must remain abreast of one another's telecommunications

policy activities. Likewise they should take stock of the telecommunications programs under their purview. In addition, they must also educate themselves about the industry for which they are setting policy. It is imperative that each understand the responsibilities and capabilities of existing rural LECs.

A complete lack of coordination is evidenced in the administration's recently proposed FY 1995 budget. In the document the administration calls for the elimination of REA's hardship (5%) loan fund. The very fund that LECs most in need would rely upon. The proposal would also increase the RTB fund's interest rate while decreasing its loan level by \$25 million. Concurrently the proposal would cut the REA guaranteed fund authorization by \$2 million. Mysteriously it would increase the new Treasury fund's authorization by \$36 million. The net impact would be a program authorized at \$90 million less than was provided in FY 1994. The proposal also falls \$10 million to \$14 million short of the authorizations mandated by the RELRA. All of this while concurrently proclaiming the glories of an information superhighway, and the critical need for rural economic development. Where do reason or justice lie within this proposal?

Though historically more supportive of rural telecommunications interests than the administration, Congress' telecommunications policy development also sometimes leaves something to be desired. In just the last few fiscal years the REA telephone loan program's authorizations have been altered repeatedly. The Federal Credit Reform Act of 1990 wreaked havoc on the program's ability to operate. Appropriations have been agreed to only to be overturned by subsequent legislation. The chaos bred by such operations is not at all conducive to appropriate infrastructure development. Congress and the administration must be fully aware of the intricate telecommunications infrastructure that is now in place. And they must recognize how the slightest policy alteration can cost the rural LEC industry and its subscribers millions of dollars.

APPROACH REA WITH SYMMETRY

There can be no question as to the very real need that continues to exist for the REA telephone loan program. The need has always been there. Nevertheless, the rural LEC industry, perhaps more than most, also understands the dilemma of the nation's spiraling debt. In fact it took the bold step 12 years ago of agreeing to freeze the REA telephone loan program's funding. The freeze remained in effect in each of the succeeding years until last year when the program was cut further by RELRA. The rural LEC industry is proud of the leadership it has displayed in this regard. But it is extremely disappointed with the minimal regard its efforts appear to be given by the administration and some in Congress.

This industry can no longer sustain the damage routinely afforded it through changing and contradictory legislative and regulatory initiatives. That is why it is imperative that Congress and the administration remain cognizant of the record of the rural LEC/REA financing partnership.

Advanced telecommunications, its financing, and the economic health of the nation are all intertwined. Therefore, it is essential that the most effective REA financing system possible be maintained for the benefit of today's and tomorrow's rural subscribers. Congress and the president must pay particular attention to the following issues:

- a substantial amount of low-cost REA capital must always remain available for the industry's most high-cost needs;
- REA telephone loan program interest rates must remain affordable;
- current REA capital levels must be maintained to ensure the telecommunications demands of today are met;
- REA's staffing levels and technical and engineering expertise should not be compromised; and,
- REA's Distance Learning and Medical Link Grant Program should be fully funded to ensure end users are able to take advantage of enhanced telecommunications services.

CONCLUSION

The REA telephone loan program bears a proud record and should remain in place to continue assisting the rural LEC industry to meet its service commitment to rural Americans. Were no changes at all to be made in the nation's telecommunications policy, the continuation of the REA telephone loan program would be a critical necessity. With change, the continuation of the REA telephone loan program is an absolute national priority. After all, the rural segment of the nation's telecommunications infrastructure is critical to the national objective of universal telecommunications service. Our industry and the REA are the natural team to lead

the Congress and the administration's objectives of linking all Americans via an information superhighway.

So many times this nation has spent too much time and money on programs and initiatives that just don't work. Why not stick with a partnership that has never in its 45 year history cost the taxpayers a cent in defaults or other program abuses. Ignore the unknowing critics and fulfill your leadership role by backing something that is working—the REA telephone loan program. We are willing, able and in fact already on the job. Thank you for your time and consideration.

Mrs. MINK [presiding]. Thank you very much. I am sure the Chairman's departure from the Chair is not any indication of his lack of support for your program. As a matter of fact, in a couple of meetings that our caucus has held, he and others on the committee have already red flagged your particular program as something that we have to pay some particular heed to.

I myself am a rural Member of Congress, and so I am very cognizant of the special responsibility that we have as rural Members to make sure that the promises that are so evident for urban America are also realized for our communities. And although I don't think REA is in my State, I wish it were because we do have a lot of problems, but nonetheless I assure you that your points are well taken and will certainly be part of our discussions in the coming days.

Thank you very much.

Mr. WACKER. I appreciate that. Thank you.

Chairman SABO. I thank you for your testimony. I grew up in rural northwest North Dakota. I remember when we got electricity. It was REA, and I remember when my mother got her first washing machine.

Mr. WACKER. Well, I don't remember that.

Chairman SABO. I was more rural than you are.

Mrs. MINK. You have two allies.

Mr. WACKER. Thank you.

Chairman SABO. Is Mr. Tobias here? Did I pronounce it right?

Mr. TOBIAS. You did.

Chairman SABO. We will put your entire statement in the record.

STATEMENT OF ROBERT M. TOBIAS, NATIONAL TREASURY EMPLOYEES UNION

Mr. TOBIAS. Thank you very much, Mr. Chairman.

I would like to focus your attention on a very small piece of the \$1.6 trillion budget. It is a \$1.1 billion proposed expenditure for Federal employee pay increases in fiscal year 1995. That \$1.1 billion translates into a 1.6 percent increase for Federal employees.

We think the proposal is a step in the right direction compared to last year when the President proposed a pay freeze. It was with your leadership that we were able to implement a piece of the 1990 Federal Employees Pay Comparability Act. We were able to close by 20 percent the gap that exists between the pay of Federal employees and those in the private sector.

Under the existing legislation, Federal employees are entitled to a 2.6 percent increase based on an increase in the employment cost index, and an additional 10 percent closure in the comparability pay gap, based on a locality-by-locality basis.

This would cost approximately \$2.7 billion. So we are approximately \$1.6 billion short. This is the 17th time in 17 years that

Federal employees have been asked to take a reduction in what the law required or what the pay agent proposed that Federal employees would receive. It is not as though Federal employees are getting rich. The most recent report by the President's pay agent in the Bureau of Labor Statistics shows that the nationwide pay gap ranges from 23 to 39 percent.

We believe, Mr. Chairman, that the \$1.6 billion additional dollars needed to fully fund the Federal Employees Pay Comparability Act can be found in the \$105 billion agencies spend on service contracts. That is not goods. That is not the purchase of hard goods. That is the purchase of services only.

If the Federal Government reduced the expenditures on service contracts by 1.5 percent, we would have the money necessary to fund a full Federal employee pay increase. We think reducing services expenditures by 1.5 percent is both doable and, most importantly, we think it is wise.

In a report issued by the Office of Management and Budget in January, it found that, first, cost estimates are not performed by many agencies prior to the renewal or extension of existing service contracts.

It also found that work inherently governmental was not performed by government employees but purchased on the outside. And it also found that "improvements are needed to ensure that the government is getting its money's worth from service contractors."

Now, that report did not comment on whether the work should be performed. In other words, whether it is wise to do the work at all. Mr. Chairman, we can squeeze 1.5 percent from \$105 billion. And squeezing those funds would send a powerful message to the Federal employee work force that every aspect of government must reinvent itself to work better and cost less.

The Federal employee work force is being asked, and I believe rightly so, to reorganize, rethink the way it does business, be more efficient, be more productive, and work with 252,000 fewer employees.

Mr. Chairman, we are up to that challenge. But we believe that others, the private sector, should also be challenged to deliver the services at 1.5 percent less. We strongly urge this committee to include in its budget resolution a direction to the Appropriations Committee to cut 1.5 percent in agency service contracts and apply those savings to the Federal employee pay raise for fiscal year 1995.

Thank you very much, Mr. Chairman, for providing me with an opportunity to testify on this important issue.

[The prepared statement of Robert M. Tobias follows:]

PREPARED STATEMENT OF ROBERT M. TOBIAS, NATIONAL PRESIDENT, NATIONAL TREASURY EMPLOYEES UNION

Mr. Chairman, I am Robert Tobias, National President of the National Treasury Employees Union. On behalf of the more than 150,000 federal workers represented by NTEU, I appreciate your invitation to appear before your Committee today on the impact of the Administration's budget proposals on the federal workforce.

As you know, the President's budget includes \$1.1 billion for federal civilian pay raises in FY 1995. This is sufficient to fund a 1.6% across the board raise for all workers next January or some combination of locality pay and a nationwide increase. While this is a vast improvement over last year's budget submission which

recommended a complete pay freeze, it is insufficient to keep faith with the Federal Employees Pay Comparability Act (FEPCA) which we have all struggled to get off the ground. In fact, the President's pay proposals have the effect of trimming federal pay adjustments outlined in FEPCA by as much as half over the next five years.

With your help and your leadership Mr. Chairman, the first installment of locality pay spelled out under FEPCA was implemented in 1993 and eligible federal workers across the Nation received that first increase in their checks just weeks ago. But as you also know Mr. chairman, the 2.2% Employment Cost Index (ECI), or across the board increase, also mandated by FEPCA was not paid. Proponents of reducing, delaying or eliminating federal pay raises stress that everyone must be willing to give a little if we are to have any hope of bringing our budget deficit under control. Mr. Chairman, we are no strangers to the deficit reduction process; we have given generously in past years. It is significant that Fiscal Year 1994 represented the 17th time in 17 years that federal workers either received no raise or a raise that was well below that which was recommended by the President's Pay Agent. It's time to change this track record and make Fiscal Year 1995 the year we fully implement FEPCA.

Enacted in 1990, FEPCA was the first serious effort at fixing the federal compensation system in 20 years. The Bush Administration, Congress and federal employee representatives worked diligently to bring about this compromise legislation. It established a system to more closely tie federal salaries to local wage rates and make them more competitive with the private sector.

This past November, the President's Pay Agent issued its annual report to the President showing that based on Bureau of Labor Statistics surveys, the average pay disparity between federal and non-federal workers was 27%. In some regions of the country, the gap was as high as 39%. I think this Report starkly reinforces why FEPCA was enacted in the first place and why it must be fully implemented without further delay or adjustment.

In its 1992 transition series of reports to incoming President Clinton, the General Accounting Office (GAO), in its examination of the public service, presented the following analysis of FEPCA: "...Achieving a consensus between the administration and Congress was a long, arduous process that would be difficult to reestablish if the current program were to become sidetracked. Full implementation of pay reform is a key building block of a more effective government and important to the government's ability to attract and retain a highly qualified and motivated workforce." NTEU could not agree more with GAO's analysis.

For FY 95 FEPCA requires a 2.6% across the board raise plus a locality adjustment equal to 10% of each locality's pay gap. The additional amount necessary to fund these raises is \$1.6 billion dollars. Mr. Chairman, we believe we have identified the resources necessary to fully fund FEPCA in 1995. We believe they can be found in the \$105 billion agencies spend annually on service contracts. As we all know, the Administration has stated its intent to reduce federal employment levels by 252,000, or 12%, over five years. The FY 95 budget calls for achieving 118,000 of this number, or 5.5% of the federal workforce by the end of 1995. If the federal government were to curb its appetite for contracting out by a mere 1.5% in FY 95, we would have the funds necessary to fully fund FEPCA. When we are asking the federal government to cut its personnel level by 12%, it does not seem at all harsh to explore the possibility of reducing contracting costs by 1.5%. In fact, it is an almost painless solution to the federal employees pay funding issue.

In January, the Office of Management and Budget (OMB) issued its "Summary Report of Agencies' Service Contracting Practices." OMB found that service contracts are the "fastest growing area of government procurement," accounting for "\$105 billion of the government's \$200 billion FY 1992 procurement program." In addition, OMB discovered that cost analyses and independent government cost estimates are not performed by many agencies prior to the renewal, extension, or even re-competition of existing contracts. Moreover, examples were reported where the government (based on agency projections) could save "several millions of dollars" by performing functions directly rather than having them performed by contract. Contractors are even occasionally performing functions which are inherently thought to be governmental functions. One recent example had a contractor drafting the opening statement a Cabinet Secretary would later give before a Congressional Committee.

Some agencies reported to OMB that even when they are able to demonstrate through studies that it would be less expensive to perform the work in-house rather than contract it out, they are not authorized to hire in order to enable them to bring the work in house and have it performed by government personnel. Apparently, although there is no room in their personnel budgets, there is plenty of room in procurement budgets to accomplish the work. It is ironic that ever tighter restrictions

on hiring federal workers are leading to what has been shown to be more expensive contracting out of these services. As the federal government downsizes, it will become even more imperative that contracting out of government functions be used only when truly shown to be more cost effective. Without service contract reform, downsizing is likely to lead to an increase, not a decrease in federal spending.

There are billions of dollars to be saved and sound policy reasons to enact service contract reform. For the federal employees who will be forced to accomplish more with fewer resources following the federal downsizing effort, we ask that a small portion of the savings be used to fund the pay adjustments mandated by FEPCA for 1995. I urge this Committee to include in its budget resolution a direction to the Appropriations Committees to cut 1.5% in agency service contracts and apply those savings to the federal pay raise for FY 95.

Mr. Chairman, I would like to bring to your attention one other matter in the President's FY 95 budget that could negatively impact federal workers. The Administration has proposed that federal agencies begin contributing a greater share of the cost of retirement benefits into the Civil Service Trust Fund for their employees in the Civil Service Retirement System. Its proposal would require that agencies contribute an additional 18% to the retirement fund beyond their current retirement contribution on behalf of these workers.

Enactment of this proposal would have no impact on the deficit because the added agency contribution would be paid from one government account to another. However, it would substantially increase agency payments to the retirement fund and require an adjustment to the discretionary budget caps to account for the change in procedure. The proposal further specifies that the caps would be raised expressly for this purpose. On behalf of the federal workers we represent, NTEU urges extreme caution in the consideration of this proposal.

We are particularly concerned that legislation authorizing the increase in agency contributions to the retirement fund may not come in tandem with the required increase in the discretionary budget caps. If this were the case, agencies already strapped by years of reductions in salary and expense accounts could be forced to layoff massive numbers of employees to meet their obligations. This is certainly not the intent of the President's proposal, however, I again urge caution in consideration of this sensitive issue.

There is one other issue that I would like to mention here today and that is full funding for the revenue-producing agencies of the Treasury Department in general and specifically the Administration's proposal to add 5,000 compliance positions to the IRS. As the exclusive representative of IRS employees, I would like to add my strong support for this proposal.

My union has worked closely with the IRS as it has developed plans to modernize and reorganize to better meet its mission. Under the IRS redeployment plan, which calls for fewer data entry type positions due to tax systems modernization, the net increase in IRS employees in FY 95 would be well under the 5,000 figure. NTEU is also working with the IRS to ensure that to the greatest extent possible employees whose jobs will be made obsolete by tax systems modernization will be retrained and moved into these compliance positions. This will avoid costly and morale-deflating RIF's and promote diversity by providing the opportunity for job growth to many women and minority workers.

In addition to making the best use of IRS' current human resources the addition of 5,000 compliance positions will enable the agency to pursue those who are not paying their fair share of taxes. The cost of the additional positions will easily be recouped by the additional revenue collected. Some estimates have put the ratio of dollars collected to dollars spent on compliance positions as high as 15 or 20 to 1. That is a bargain by anyone's standards and a bargain that the country needs to take advantage of in its deficit reduction battle. I urge the Committee to include 5,000 additional compliance positions for the IRS in its budget resolution.

Mr. Chairman, thank you again for this opportunity to appear before your Committee and share our thoughts on the impact of the President's budget on federal workers. Your past assistance and support have been much appreciated and we look forward to working with you and your staff again this year. Thank you. I would be happy to answer any questions.

Chairman SABO. Thank you. We will try and do our best.

Mrs. Mink?

Mrs. MINK. No questions, Mr. Chairman.

Chairman SABO. Thank you very much.

John Parachini, welcome. We will put your entire statement in the record.

**STATEMENT OF JOHN PARACHINI, EXECUTIVE DIRECTOR,
COMMITTEE FOR NATIONAL SECURITY**

Mr. PARACHINI. Thank you very much, Mr. Chairman.

I am pleased to be here as the Director for the Committee for National Security, which is a group led by former senior government officials from the Executive Branch and former Members of Congress. The group from the Executive Branch excludes former Central Intelligence Agency Director William Colby, former Assistant Secretary of Defense Lawrence Korb, among your former colleagues are included John Sieberling from Ohio and Robert Edgar from Pennsylvania, and Berkley Bedell from Iowa.

This group has looked at the defense budget and principally the Bottom-Up Review that is the underpinning for the fiscal year 1995 defense budget, and issued a statement on it, captured here in this document, and my remarks will reflect the essence of that statement.

Their bottom line is that the premises of the Bottom-Up Review essentially set us on a course that misallocates Federal dollars. Their view and our view at the Committee for National Security is that there are about \$70 billion in additional savings that could be achieved over the next 5 years if the force structure were structured in a different fashion than is envisioned by the Bottom-Up Review.

As you know, these people are people who have served this country many years in different capacities, many of them with quite distinguished military careers, and these are people who have worked with our allies and spent a large part of their career assessing threats. They are well geared to address this question of what the future of our military budget should be in the post-cold war period.

Their concern is that once you accept the premises of the Bottom-Up Review, you are on a course guaranteeing that you must spend the sort of money that the Clinton administration envisions in the fiscal year 1995 budget, if not more.

So the key for this committee, as it undergoes a review of the defense budget portion of the fiscal year 1995 budget, is to assess those underlying premises which are captured by the Bottom-Up Review, because once you accept that there is really no turning back from a fairly large defense budget. If indeed you reevaluate those principles, you are in a much different position.

The first concern that we have about the Bottom-Up Review is threat inflation. The magnitude of security that the United States has gained with the collapse of the Soviet Union and its Warsaw Pact allies has really not been adequately appreciated by American leaders. We simply cannot, as is done in the Bottom-Up Review, sum up a couple of medium-size regional conflicts and consider that equivalent to the threat we faced at one time at the inter-German border.

The forces to meet the threats that we now face, these medium-sized regional crises that are envisioned in the Bottom-Up Review are really excessive. While outgoing Secretary of Defense Aspin brought a good process to force structure planning at the Pentagon, the rules are flawed. The force levels envisioned are really too high and excessive and misallocate funds.

If you look at the Gulf War, we used a fraction of the forces we had available and indeed a fraction of the forces envisioned in the Bottom-Up Review. The real result of that is that a significant military force is available for other contingencies that we might confront other than the Gulf War. And I think most Americans would agree, the Gulf War was a very serious and significant and sizable military engagement.

One of the dangers of pursuing some of these military programs that do not necessarily correspond to the threats is that we will embark upon funding systems and create bureaucratic momentum for them, to the extent that at some point in the future it will be very hard to reorient it. At some point in the future, we may have new threats that we don't anticipate now that may require defense spending that we won't necessarily have to allocate.

So there is not only an excess spending component but there is also a danger that we will spend in the wrong ways in the future for those threats that we don't necessarily know. And those are the most dangerous threats, the ones we can't necessarily anticipate at this point.

The other main weakness of the Bottom-Up Review is that it really undervalues the capabilities of America's allies around the world. As was clearly the case in the Gulf War, we received significant support in terms of financial resources as well as military capabilities from our allies.

While the Bottom-Up Review posits two medium-sized conflicts, it is really not credible to think that the United States would face these conflicts alone without involving any of our allies.

In fact, the South Korean military force, despite being outnumbered by the North Koreans, really is one of the most formidable fighting forces in the world.

Moreover, in the post-cold war period, it makes good sense to involve other countries. It makes good political sense. It makes the sustainability of a multilateral conflict much more likely to occur. So not only is it financially important to involve allies, but there is a political component that should not be overlooked.

There has been much talk about trying to alleviate the economic difficulties experienced in downsizing of the defense budget. And indeed we should all honor our service personnel and those in our defense industries who have worked so hard during the cold war to ensure the safety of this country. However, in this period, the Pentagon should not be looked upon as a welfare agency for either individuals, communities, corporations, or indeed the U.S. economy as a whole. There are other Federal agencies that ought to receive the funds to address those critical problems that are resulting from the downsizing of our military.

If we really want to maintain our defense industrial base, we need to do it in a smarter fashion. A smarter fashion does not mean continuing to fund huge weapons systems that were appropriate for a cold war conflict with the Soviet Union. Rather, we can retain those capabilities in our defense industrial base by building smaller, smarter, more agile and less expensive systems than those outlined in the Bottom-Up Review.

Most of the large systems that are in the Bottom-Up Review are really not appropriate for today's conflicts were also in President

Bush's plans for defense spending prior to the collapse of the former Soviet Union.

So the Bottom-Up Review sets the fiscal year 1995 defense budget on a course involving cold war weapons systems that are really not appropriate for this time, and President Clinton, who to his credit talked a great deal about change in his campaign, really has not changed much in this defense budget.

If indeed someone can make a better case that some of these weapons systems are indeed appropriate for this new era, that needs to be explained. Similarly, it needs to be explained how these large systems that were appropriate to the cold war period can do the job better in the current period than smaller and more agile systems.

Now, one thing we would like to bring to the attention of the committee is that there may be a Trojan horse in the defense budget. If not now, it will come in the coming years. And that is in the form of the counter-proliferation initiative.

Clearly we agree, as many Americans do, with the President that the spread of mass destruction weapons is one of the highest national security priorities of this country. But the Pentagon and its civilian leaders have really yet to address what they mean by counter-proliferation and what forces and what force structure will be required to implement a military strategy to counter the spread of mass destruction weapons.

The counter-proliferation initiative might require more defense spending in the future than was the case in the cold war. And very credibly. In fact, many defense analysts who participated in a Rand Corporation study entitled "The Day After Nuclear Proliferation in the Post-Cold War Period," have seen that it is very difficult and will require an enormous military capability that we really don't have now to eliminate the threat of mass destruction weapons from countries that now have very sophisticated tunneling capabilities.

So there might be a very credible rationale for large increases in defense spending in the future to counter this threat, but there may be other ways to do it other than military means, and that is what we would like to draw to the committee's attention.

We are concerned that the Bottom-Up Review doesn't address the danger of inaction. We are at a crucial time now when many countries have the industrial capability and could choose to pursue a mass destruction weapons capability, and eventually sprint to possession of a weapon of mass destruction. And they will, if indeed the value in terms of statecraft of certain mass destruction weapons is not devalued.

One of the most important things the United States could do in that regard is to devalue nuclear weapons itself, as we are already doing with chemical weapons.

We are trying to achieve a test ban agreement in principle prior to the 1995 nuclear nonproliferation extension conference. That would send a clear signal around the world to countries that are both our adversaries and allies, those with industrial capabilities to pursue mass destruction capability that nuclear weapons are no longer key instruments of statecraft.

Finally, as this committee is well aware, there are many non-military threats to national security. Appropriately, the Bottom-Up

Review does not extend the role of our military forces into domestic matters or handling threats that they can't address.

Military forces should be used to defend the national interest as defined by the President and the Congress. But the committee knows as well as we do that the greatest threat that most Americans experience today is probably from urban violence, diseases, and environmental decline, not from aggressive foreign military forces. And it is clear that a reallocation of funds to address some of these pressing domestic needs will make a contribution to national security.

So in your deliberations about the national budget we hope you will take that into consideration. There are certain things military forces can't do and certain things they can do. We ought to be very clear when discussing it with the American people which are which.

Finally, in my statement, I have a glide path describing how the force structure changes outlined in this critique of the Bottom-Up Review could over a 5-year period of time achieve a defense budget savings of \$70 billion in addition or beyond that which the Clinton administration has proposed.

I want to conclude by urging this committee and in particular the Congress as an institution to conduct a thorough examination of the Bottom-Up Review and its implications for the 1995 defense budget. If the Congress does not direct some attention to some of the issues that I have raised this afternoon, there is no alternative to committing at least as many Federal dollars to defense as envisioned in the fiscal year 1995 budget, if not more.

However, I am confident that if you do take into consideration some of these matters that the opportunity to restructure our forces, achieve defense budget savings, and still be the preeminent military power in the world, will be of great service to our country.

Thank you, Mr. Chairman.

[The prepared statement of John Parachini follows:]

PREPARED STATEMENT OF JOHN PARACHINI, DIRECTOR, COMMITTEE FOR NATIONAL SECURITY

Mr. Chairman and Members of the Committee: I am pleased to appear before this Committee to present the views of the Committee for National Security (CNS) on the Clinton Administration's Bottom Up Review and the Fiscal Year 1995 Defense Budget. The Committee for National Security, an affiliate organization of the Lawyers Alliance for World Security, is led by a number of former, senior government officials and former Members of Congress. These individuals include former Director of Central Intelligence William Colby, former Assistant Secretary of Defense in the Reagan Administration Lawrence Korb, and Assistant Secretary of Defense and Director of the Arms Control and Disarmament Agency, as well as former Congressmen John Sieberling from Ohio, Berkley Bedell from Iowa and Bob Edgar from Pennsylvania. These former executive branch officials and former Members of Congress produced a joint statement, the essence of which I will present to you today. Their bottom line is that the United States can reduce the US defense budget approximately \$70 billion more than envisioned by the force structured outlined in the Clinton Administration's Bottom-Up Review, and still remain the pre-eminent military power in the world.

The signatories of this statement on behalf of the Committee for National Security have served in Republican and Democratic administrations. Several have distinguished careers in our armed services. All are very patriotic and are as concerned about the national security of the country in their current private capacities as they were when they served in government. Hence, the subtitle for their statement on the Bottom Up Review, "Exaggerated Threats and Undervalued Allies?" comes from a group of people who have spent significant parts of their careers assessing na-

tional security threats and working with allies to defend the country and forge international stability against a wide range of military threats.

Outgoing Secretary of Defense Les Aspin's Bottom-Up Review makes a contribution to the American national security planning process, but does a disservice to the country in terms of its policy prescriptions. The Bottom-Up Review makes assumptions about threats and the forces required to meet those threats which lead to a significant misallocation of federal dollars.

The main thrust of our concerns relate to the underlying premises on which the Fiscal Year 1995 defense budget is based. Once you accept the basics premises of the Bottom-Up Review, you are then committed to a force structure which demands at least as high a defense budget as proposed in the President's FY 1995 budget, if not more. Many argue with considerable justification that the threats posed by the Bottom-Up Review and the force structure outlined to meet those challenges cannot not ultimately be met with the funds requested over the next five years. This exposes the United States to the dangerous situation wherein our national political-military strategy may commit America to engagements that we neither need to meet, nor are we financially capable of meeting. Overpromising and under-spending is irresponsible and a receipt for disaster.

A reassessment of the underlying assumptions of the Review will permit at least 70 billion dollars in savings over the next five years, and still ensure that the United States armed forces are prepared to meet the most likely missions they are liable to encounter in the coming years.

There are five important concerns about the Review that I want to draw to the attention of the Committee:

Threat Inflation. The magnitude of security that the US obtained with the collapse of the Warsaw Pact and the Soviet Union is enormous and has not been adequately appreciated by some American leaders. Continuing to suggest that a combination of significantly smaller regional threats is nearly equal to that posed by the Soviet Union and its allies undermines the historical understanding and support of the American people for a military force structure adequate for security threats which may arise in the future.

The Bottom-Up Review stipulates that US armed forces must be prepared to handle two medium-sized regional crises (MRC). While preparing for these types of threats is wise, the forces proposed to meet these threats are excessive. The force levels and weapon systems employed in the gulf war were a fraction of what was available at the time and a fraction of what is outlined in the Bottom-Up Review. During the gulf war a comparatively small portion of our force capability was involved in the gulf war, leaving a huge capability available to counter a host of other contingencies.

Unnecessary defense spending robs the country of funds, which could be used for deficit reduction or pressing domestic needs. Furthermore, continued spending on a force structure, which is just a lighter version of what the United States had during the Cold War misallocates defense dollars to projects that might prove to be financially, politically and bureaucratically difficult to forgo even if we faced new and unanticipated military needs.

The Bottom-Up Review calculus greatly undervalues the capabilities of important US regional allies. As was the case during the gulf war, addressing the potential conflicts envisioned by the Review in Korea and the Gulf will undoubtedly involve burdensharing among American allies. In the post-Cold War era, greater military burdensharing makes sense both from a financial point of view as well as political point of view. Basing our force structure on the requirement that the United States handle major regional crises unilaterally, especially on the Korean peninsula and in the Persian Gulf where we clearly have important allies with formidable military capabilities and clear security interests at stake, is an exaggerated concern.

Misallocation of Funds. Moving away from a Cold War economy will present many economic policy challenges which should be addressed by the appropriate federal departments and agencies. The US military's primary mission should continue to be defense of the nation's vital interests and its closest allies as determined by the President and the Congress. The Pentagon is not a welfare agency for individuals, corporations, communities or the US economy.

The United States will better maintain its defense industrial base by building smaller, smarter, more agile and less expensive systems than many of those outlined in the Bottom-Up Review. Continuing to build systems designed for a Cold War environment supports a defense industrial base prepared for the last war, not the next one. Moreover, by looking forward rather than back, essential defense skills can be preserved for future eventualities at a fraction of the cost included in the FY 1995 defense budget

Defense Secretary Perry's recent statement that the current defense budget does not include any Cold War weapons systems is simply not credible. Decisions to develop and purchase the Seawolf submarine, the B-2 bomber, the Trident II missile, the F-22 fighter aircraft and additional aircraft carriers are examples of political expediency, not prudent, hard-nosed defense planning in an era of tight budgets. All of these systems were part of the Bush Administration's defense procurement program before the collapse of the Soviet Union. Surely, President Clinton, whose most appealing election theme was "change," can provide more dynamic leadership in the weapons procurement field than President Bush did prior to the global collapse of Soviet communism.

The US Congress and the American people deserve a clear explanation about how the US government will be *better* able to handle the postulated threats with forces designed for a major conflict with the Soviet Union and its Warsaw Pact allies. Upgrading existing weapons platforms with more sophisticated equipment is more important and more cost effective than building behemoth weapons platforms with roles and missions yet to be fully determined or explained.

The Counterproliferation Initiative. The most daunting threats facing the United States today are the proliferation of weapons of mass destruction to rogue states and terrorists. The Defense Department has yet to articulate how the forces it plans to field will address the national security challenges presented by weapons proliferation. Since the Cuban Missile Crisis, the community of nations has had more success in lowering the prospect and lethality of war by diplomacy and economic pressure than by military force. How "counterproliferation" can be achieved by acts of war and what forces would be employed in those actions remains to be discussed with a clear understanding of the long-term budgetary implications. American national security is hurt at home and abroad when the Clinton Administration bases "counterproliferation" strategy on military technology that is financially unattainable.

The Congress should be wary of the Counterproliferation Initiative as a Trojan horse for significant future increases in defense spending in the future. Already the threat of mass destruction weapons proliferation is being used as a rationale for various ballistic missile defense systems. While Patriot upgrades or the THAAD system may be partial answers to military threats, they are only partial answers. As many national security experts who participated in the RAND Corporation study of "The Day After... Nuclear Proliferation in the Post-Cold War World" discovered it is very hard to determine what weapon systems will adequately meet the current and future proliferation threat. What is clear however, is that the military forces required to eliminate the mass destruction weapons capability of a determined nation with significant cave and tunnel building capability are very, very formidable. It is easy to imagine the Counterproliferation Initiative credibly making the case for maintaining defense spending at Cold War levels, if not more.

The most powerful measure against the weapons proliferation is military transparency. Nations, like individuals, act more rationally when they have more information. Enhanced detection and monitoring capabilities in the form of clandestine intelligence acquisition, national technical means and multilateral inspections will ensure a greater defense against weapons proliferation than billions of dollars spent on more war fighting materiel.

The Danger of Inaction. Unless the United States moves aggressively to reverse the proliferation of mass destruction weapons, there is a danger that industrialized, nations which have hitherto foregone the opportunity to develop nuclear weapons, will feel threatened enough by small or rogue nations aspiring to develop nuclear weapons that they will sprint to join the nuclear club. The US and the other declared nuclear powers can best block the emergence of a group of threshold nuclear powers by significantly devaluing nuclear weapons as instruments of statecraft. In this regard, the most effective step is the prompt negotiation of a Comprehensive Test Ban in advance of the 1995 Non-Proliferation Treaty (NPT) extension conference.

Nonmilitary Threats to National Security. Appropriately, the Bottom-Up Review outlines threats, roles and missions abroad for our armed services. There remain national security threats at home and abroad, which do not pose a military challenge. These threats cannot and should not be addressed by the US military. The scourge of AIDS, rampant crime in urban areas, falling adult literacy rates and unemployment are all threats to the security of the American people. More Americans are killed by violent crime and social diseases each year than are killed by the military forces of other nations. To ignore this unfortunate reality of late 20th century American life is to unnecessarily risk pitting domestic security needs against funding for the US military.

Having focused on issues underlying the Clinton Administration's defense spending plan for the next five years, I want to conclude by outlining a glide pattern for defense spending which will support an alternative force structure. The force structure we propose will achieve approximately \$70 billion dollars in savings over the next five years beyond that envisioned in the Administration's plan. A reduction of this magnitude over five years will result in an FY '99 defense budget of about \$240.

In the appendices to my written statement is an alternative force structure which can be supported by these lower annual allocations of federal dollars to America's national defense. But I want to conclude by urging this Committee in particular and the Congress as an institution to conduct a thorough examination of the Bottom-Up Review and its implication for the FY 1995 defense budget request is based. If the Congress eschews some of the concerns I have outlined today, there is no alternative to committing the at least as many federal dollars to defense spending as outlined in the FY 1995 defense budget. However, we at the Committee for National Security are confident, that a more thorough examination of the main premises underlying this defense budget will set the proper context for appropriate reductions in defense spending and the restructuring of US military force structure.

APPENDIX 1

	<u>Clinton Budget Authority</u> (in billions)	<u>CNS Alternative Budget Authority</u> (in billions)	<u>Percentage Change</u>	<u>Savings</u> (in billions)
1995	\$263.7	\$260.7	1%	03
1996	255.3	246.3	4	09
1997	252.0	241.0	6	14
1998	258.7	239.7	7	19
1999	265.1	239.1	9	24

APPENDIX 2

Proposed U.S. Force Reductions*

	Desert Storm Deployment	Bush's Base Force	Clinton's Bottom-Up Review	CNS Force Structure
Ground Divisions	10	22	19	15
Tactical Air Wings	10	26	20	20
Aircraft Carriers	6	12	12	09
Carrier Air Wings	6	13	11	10
Ships	100	450	346	350
Personnel	550,000	2.6 million	2.35 million	2.0 million
			Active: 1,450,000 Reserve: 905,000	Active: 1,300,000 Reserve: 700,000
Nuclear Warheads	-	3500	3500	1000

Chairman SABO. Thank you very much for your testimony.

I agree very strongly with you that we should move to nuclear test ban treaty and extension of the nonproliferation treaty. Both of those I think are clearly in our self-interest as well as the world's interest.

As I look at your numbers, what you are really suggesting is about 15,000 active troops than what the administration is suggesting. You are suggesting changes in the ground divisions. In the air, not that much different. Fewer aircraft carriers. Actually four more ships than what the administration is proposing.

I think you have raised significant issues in the way you structure it. I think it is helpful to the type of debate that has to go on in this Congress and the next several Congresses.

So I thank you for your testimony.

Mr. PARACHINI. Thank you, Mr. Chairman.

Chairman SABO. Carol Cox-Wait. Your entire statement will be put in the record.

STATEMENT OF CAROL COX-WAIT, CENTER FOR BUDGET POLICY

Ms. COX-WAIT. Thank you, Mr. Chairman.

Our committee is committed to budget balance, but we oppose a balanced budget constitutional amendment. We are concerned that some others who oppose the amendment are making an awful strong case for Mr. Stenholm, Mr. Simon and their cause.

The administration and some on the Hill often sound as if they equate balanced budgets and balanced budget amendments, that they oppose the balanced budget amendment because it would force to you balance the budget.

I confess that if I believed that, I might be tempted to support it. I just don't. I worry that if those who share our concerns about this flawed idea continue to argue as if they were opposed to a balanced budget amendment, eventually we will lose this argument, if not this year, soon.

The American people support budget balance. If voters can be convinced that a constitutional amendment is the answer to balancing the budget, sooner or later they will elect a legislature that will enact such an amendment.

The President is justifiably proud of having submitted a budget to you based on reasonable economic assumptions, a budget which spells out his investment agenda and how he would pay for the parts of that agenda which would be funded through annual appropriations.

The administration acknowledges frankly that they plan further to trim defense in order to pay for domestic discretionary programs. And the President has proposed to eliminate or cut back literally hundreds of Federal programs, something for which we congratulate him. The closest thing on earth to eternal life is a Federal Government program. To suggest ending any of them, it seems to us, is a step in the right direction.

But the administration's budget is in some respects as important for what is left out as for what is in it. Most of the cost and financing of health care reform, welfare reform, GATT implementation, tax extenders, Superfund are not in the budget. And when asked

about that, the administration responds, that is because they will have to propose to pay as they go for these initiatives under the current budget rules.

I must confess, it never occurred to me that pay-as-you-go would become an excuse for leaving major proposals out of the budget. The budget, of course, is supposed to provide a context, a framework in which we can view those proposals in some overall fiscal policy priorities.

And I must say to you that any chief executive officer, any board of directors, that acknowledge publicly that their policies would bankrupt the company in 10 or 20 years, and then proposed to do nothing about it, wouldn't last through their next shareholders' meeting. Even Wall Street, as notorious as it is for its short term view of profits and losses, would punish that kind of behavior.

I am concerned, despite the fact that the budget deficit is going down—and you deserve credit for what you did last year, last year's budget agreement combined with a growing economy, low interest rates, low inflation, is producing lower deficits in the near term. But the deficit is going to go right back up again.

There is a fundamental structural imbalance between our Nation's spending and tax policies. Unless Congress and the President act to change that fundamental imbalance, the deficit is going to go right back up again.

All of the economic projections, all of the budget projections we are looking at today assume that the economy will continue to grow for a decade. They assume that interest rates and inflation will remain low and unemployment will come down. They assume we don't fight any more wars, we don't have any more national emergencies, we don't have any more than the usual incidence—whatever that means—of natural disasters, and it means no new Federal programs that add to the deficit.

That is a real optimistic set of projections over a 10-year period of time. And now it seems to us that the health care reform debate threatens to become the fiscal policy equivalent of the dieter's binge.

This could be the budget debate in microcosm, Mr. Chairman. Everybody wants more and better health care and everybody wants somebody else to pay for it. Everybody wants to enact benefits now and project savings in the out years.

We are watching as health care reform becomes the last train leaving the station. Folks seem to be scared to death that once it has gone, we will get back to being serious about the deficit again. So we see everybody trying to climb aboard. We are the only major Nation in the world that medicalizes long-term care, and long-term care is a major cost driver in almost every major health care reform proposal before Congress this year.

The chiropractors are already on television and radio urging you to include them in any minimum benefit package you might enact. I can't wait for the acupuncturists to start running their ads.

Over the next decade or more, as you rightly pointed out earlier, health care spending is the major driving force behind persistent, then rising budget deficits. And yet every single major health care reform proposal would add to Federal spending above the baseline for health care. None of them would reduce the deficit at all.

I am going to suggest a couple of guideposts for the budget debate this year, guideposts that are unlikely to be popular either with members of your committee or with the administration.

First, I would suggest you put deficit reduction back on the agenda. We would hope, as you suggested earlier, that health care reform would contribute to reducing the deficit. We don't need to focus exclusively on the deficit. There are new needs to be met. There are new priorities you need to fund. Why not devote 50 cents of every dollar that you can cut, or taxes that you are willing to raise, to reduce the deficit and use the other 50 cents to pay for new priorities? We can do more than one thing at one time.

Second, we urge you to remember catastrophic health. There has to be as much consensus around the financing of health care reform as there is around the benefits you would provide. Ends don't justify means. We can't trick people. Eventually voters will figure out the cost of health care reform. If they think it costs too much, if they are not willing to pay the bills, we could put both the economy and the health care system at jeopardy.

Now, while the economy is growing, and we can forecast relatively stable deficits, with luck below \$200 billion a year for a few years, we could make some real progress toward budget balance, that nirvana in the sky. If you wait until the deficit begins to grow again, if you wait until interest rates rise and/or the economy goes into recession, the choices will be infinitely more difficult and the political pain could prove to be unbearable.

Budget balance does matter, but that doesn't mean you should enshrine a particular fiscal policy in the Constitution. Indeed, at this point in U.S. economic and demographic history, our board believes you ought to be running surpluses more or less equal to the Social Security Trust Fund reserve over the business cycle.

If you take into account the money we are borrowing from Social Security, if you look at gross debt rather than debt held by the public, the national debt continues to grow faster than GDP.

We need to put the government on a sound fiscal footing, to face the challenges we know we must face in the first part of the next century.

In closing, I want to thank you and your staff. Last year the House Budget Committee reported a resolution that cut spending and the deficit \$100 billion over 5 years lower than the President had proposed to do. We urged to you go further, but you deserve credit for refusing to raise discretionary spending caps and for extending the caps through 1998, and for imposing what is essentially a nominal dollar freeze on discretionary spending for 4 years.

Your reports—and I thank you and your staff from the bottom of my heart for this—your reports and your materials did a much better job than either the President's budget or the Senate committee in describing the choices in the budget resolution and ultimately the reconciliation bill. Those of us who spend our lives trying to explain to other folks what you do up here really appreciated that clarity.

We encourage the committee to go beyond the President's budget again this year. We believe you can meet new high-priority needs and continue to work on reducing the budget deficit. We believe

that could be the best argument against a balanced budget amendment.

If the Budget Committee won't take up this task, who will? If not now, while the economy is growing, when? If you delay too long, too many people could conclude that some kind of constitutional remedy is the only way we are going to get to balanced budgets.

Thank you very much.

[The prepared statement of Carol Cox-Wait follows:]

PREPARED STATEMENT OF CAROL COX-WAIT, PRESIDENT, COMMITTEE FOR A
RESPONSIBLE FEDERAL BUDGET

Mr. Chairman, Mr. Kasich. Thank you for the opportunity to appear before you today. The Committee for a Responsible Federal Budget is a nonprofit, educational organization. We are bipartisan—not nonpartisan. Our directors make policy for the Committee and some of our directors do not have a nonpartisan bone in their bodies. But our directors do agree that people of good will can and must reach bipartisan consensus on issues as important as the nation's economy and national fiscal policy. We support budget balance. We oppose the balanced budget constitutional amendment.

We are concerned, however, that some who oppose the amendment are making a strong case for Mr. Stenholm and his amendment. The Administration and others sound as if they oppose balanced budgets—not just balanced budget amendments. If those who share our concerns about this flawed flight of fiscal fantasy continue down that road, eventually we will lose. If not this year, soon. The American people support budget balance. Convince voters that the amendment is the way to balance the budget and they will elect a legislature which will pass the amendment.

The President should be proud of a budget based on reasonable economic assumptions. The President's budget spells out his "investment agenda" and how he would pay for the parts of that agenda which will be funded in annual appropriations.

The Administration acknowledges frankly they plan further to trim defense to help pay for domestic discretionary programs. And the President proposes to cut or eliminate literally hundreds of domestic discretionary programs to keep spending within the Budget Enforcement Act caps and fund what he believes to be higher priority needs.

But the Administration and the legislature should go much further. The President's budget is silent as to how the Administration proposes to pay for their big new initiatives on the paygo side of the budget. Health care reform, welfare reform, GATT Implementation legislation, tax extenders, superfund, etc., are as Senator Dominici put it "Missing in Action." Administration officials respond to this criticism by pointing out that they must propose paygo offsets to pay for these priorities. Whoever thought that pay-as-you-go would become an excuse for Presidents to put off telling us how they plan to pay for major initiatives—so we cannot view and weigh those priorities in the context of overall budget and fiscal policy priorities?

Any Chief Executive Officer, any Board of Directors, that acknowledged publicly that their policies would bankrupt the corporation in ten or twenty years and *proposed to do nothing about it* could not last through their next shareholders meeting.

Even Wall Street, with their notoriously short-term view of profits and losses, would punish such behavior by downgrading the company's debt or selling off the company's stock. But that is where the country seems to be.

My good friend and Deputy OMB Director Alice Rivlin reportedly testified that the Administration does not have a fiscal policy for the long term. The President's budget, and the CBO Economic forecast make clear the facts: the recovery, low interest rates and low inflation combined with last year's budget agreement will reduce the deficit over the next few years; but there continues to be a fundamental, structural imbalance between spending and tax policy; unless Congress and the president change current laws and policies the deficit will go right back up again.

These projections assume the economy continues to grow, interest rates and inflation remain low, unemployment declines, no wars, no national emergencies, no more than the usual incidence of natural disasters, and no new federal programs add to the deficit. In other words, good old Rosy Scenario never did leave town.

Now the health care reform debate threatens to become the fiscal policy equivalent of the dieter's last binge. This is the budget debate in microcosm. Everybody wants more and better health care—and somebody else to pay for it. Enact the benefits today and project savings in the outyears.

If health care reform is to be the last train out of the station, everybody wants to climb aboard before we get serious once again about the deficit. We are the only industrialized nation in the world that medicalizes long term care. Long term care is a major cost in most of the major health care reform proposals before Congress. The tooth lobby and the chiropractors are advertising, pressuring you to put them in any package of guaranteed health care benefits. Some say crime is a health care problem.

Every budgeteer knows: In the near term, the deficit is largely a health care spending problem, yet most major health care reform proposals would increase federal health care spending above the baseline; and none would reduce the deficit in the foreseeable future.

May I really rain on your parade for a moment? Let me suggest two guideposts for the budget debate this year—two guideposts unlikely to be very popular with anyone on the Committee or in the Administration.

First, put deficit reduction back on the agenda. You need not focus exclusively on reducing the deficit. You will want to spend money to meet new needs and fund high priority programs. But why not devote fifty cents of every dollar you cut—half of any tax increase you are willing to enact—to reducing the deficit?

Second, remember catastrophic. There must be as strong a consensus around the financing as around any benefits you provide in health care reform. You cannot trick people. Eventually folks will figure out what things cost—and if most voters think health care reform costs too much, the economy and the health care system could be in jeopardy.

Now, while the economy is growing and we can forecast a few years of relatively stable deficits (with luck below \$200 billion per year), you could if you would make real progress toward solving the deficit problem once and for all—with minimal risk of any adverse macro economic consequences and as little political pain as ever will be possible. If you wait until the deficit begins to grow once again, if you wait until interest rates rise and/or the economy goes into recession, the choices will be infinitely more difficult and the political pain could prove to be unbearable.

Budget balance does matter. But that does not mean you should enshrine any single, specific fiscal policy goal in the constitution.

Indeed, at this point in U.S. economic and demographic history, our board believes the country should be running surpluses over the business cycle more or less equal to social security trust fund reserve, reducing debt held by the public, putting the government on sound economic and fiscal footing for the challenges we know we will face early in the twenty-first century.

In closing, may I thank you and your staff. Last year, the House Budget Committee reported resolution cut spending and the deficit one hundred billion over five years below the levels proposed in the President's Budget. We urged you to go farther, but you deserve credit for refusing to raise the discretionary spending caps enacted in 1990, and for extending the caps through 1998, essentially freezing discretionary spending in nominal dollars for four years.

Your reports and back-up materials did a better job than either the President's Budget or the Senate Committee in describing the choices in the budget resolution—and ultimately the reconciliation bill. For that, we who try to translate budget decisions into ordinary English thank you.

We encourage the Committee to go beyond the President's budget again this year. You *can* meet new high priority needs and continue to work toward balancing the budget. That could be the best argument anyone could make to refute the balanced budget amendment. If not you, who will take up this task? If not now, when? Delay too long you may convince too many people that opposition to the amendment is really opposition to budget balance.

Chairman SABO. Thank you for your testimony.

I am curious about one thing you said. You said we were the only country that——

Ms. COX-WAIT. Medicalizes long-term care. All other developed democracies treat long-term care, primarily as a social service, treating only the medical elements of long-term care as a medical problem.

That has two benefits, Mr. Chairman. One, we and other democracies are more willing to means test social services than we are to means-test medical care.

Secondly, providing long-term care as a social service is less costly than providing it in a medical environment. Largely due to third-party payment in the United States, we tend to medicalize, that is to say, to treat or want to treat long-term care as an insurable medical expense.

Chairman SABO. Except in most cases that is not insured.

Ms. COX-WAIT. I understand it is not, but the pressure to do so is due to pressure to find third-party payment sources for it. The pressure doesn't derive from the fact that it is primarily a medical service you are providing.

My mother-in-law died at age 98, in January of this year, and can I assure you most of what she received in the short period of time she spent in the nursing home before she died wasn't medical care. It was more nearly analogous to the baby-sitting services we provide for our children and grandchildren.

Chairman SABO. So when we seek comparisons of health expenditures between our country and other countries, long-term care is not—

Ms. COX-WAIT. The nonmedical aspects of long-term care should not show up in the health care statistics for any of the other major democracies, no, sir.

Chairman SABO. What percentage of GDP is that in this country?

Ms. COX-WAIT. I don't know, but I can find out. The other thing I can get you is from a report we published in the spring of last year. It includes some fairly detailed analysis of just who are the uninsured. Susan Tunaka did for our committee a thorough analysis of that data.

One of the things that strikes me is that 30 percent of them are young adults between 19 and 29 years of age who think they are immortal. I wonder just how high a public priority it is to cover them with insurance or coerce them to buy it. But that is another issue for another day.

We do have some fairly detailed information on the composition of the uninsured population we can provide you.

Chairman SABO. Thank you.

Ms. COX-WAIT. Thank you.

Chairman SABO. Is Mayor Cleaver from Kansas City here?

Welcome, and we will put your entire statement in the record. Speaking on behalf of the United States Conference of Mayors. Welcome to the committee, Mr. Mayor.

STATEMENT OF HON. EMANUEL CLEAVER II, MAYOR OF KANSAS CITY, MISSOURI, ON BEHALF OF THE U.S. CONFERENCE OF GOVERNORS AND MAYORS

Mr. CLEAVER. Thank you, Mr. Chairman.

I am Emanuel Cleaver, the Mayor of Kansas City, Missouri. And I am appearing before this committee this afternoon on behalf of the U.S. Conference of Mayors. We appreciate the opportunity to share with this committee our views on the administration's proposed 1995 fiscal year budget.

You have a copy of my comments entitled "The Federal Budget and the Cities," which is prepared annually by the U.S. Conference of Mayors. The report provides a detailed narrative and analytical analysis of the fiscal year 1995 budget as it relates to key municipi-

pal priorities programs. I would encourage you and the entire committee to review the document closely, and I will simply summarize today what is contained in that document.

This year's budget gives mayors our first glance on where America's cities fit into the Clinton administration's fiscal priorities. We have, as you may know, had an ongoing dialogue with the President since he was elected to discuss for the first time in years the concerns of the urban centers of our country. And we are encouraged that the administration has followed through on its pledges to invest in America's cities, and we are generally pleased about the investment choices made in the budget.

I want this committee to understand very clearly that mayors appreciate the tough choices that need to be made. Those of us who sit in city halls on a daily basis must make those same tough choices.

And so we are not insensitive to the fact that this committee and this Congress will have to make tough choices. We live in an era of budget restraint, both at the local and Federal levels. However, mayors believe that your Nation must continue to invest in our capital, both human and physical, if we are to reverse the cycle of disinvestment in our urban areas.

Many of the programs and investment priorities mayors have requested for the cities are found in the President's proposal. So on balance, we believe this is a good budget for cities, with Federal funds being focused on some of our most serious problems.

I would like to highlight now, if you will, some of the key municipal investment increases, and new initiatives contained in the budget. First and foremost, the President's budget follows through on his pledge to help stop the spread of violent crime which is tearing our cities and neighborhoods apart.

The budget provides \$2.4 billion for 50,000 additional police officers and a range of other law enforcement initiatives. Mayors applaud this funding level as the first installment at the Federal level to help fund 100,000 police officers, and urge the Congress to approve the President's fiscal year 1995 budget request.

Mayors have been leaders in the effort to secure support for more police enforcement to provide cities with real resources to help fight violent crime. Kansas City, the city that I head, set a record last year in homicides. We had 153 homicides. It is the number-one concern of mayors in the major urban areas. And although violent crime is decreasing, the most reported and the most frightening crime, homicide, is in fact increasing.

And we are very seriously working on a crime bill with the administration and with Congress because we think that life as we know it in the cities is on its way out unless we are able to reverse this violent trend in the cities.

It is our hope that this committee and the entire Congress will approve the President's funding request so that when a crime bill is enacted, soon, I hope, there will be funding immediately available to get police on the streets. I must add that it will take almost a year, even after the bill is approved, before we are able to get police on the street, because there are requirements, training hours required before police can get on the street. It will differ from State

to State, but the sooner the better as it relates to the passage of the crime bill.

The budget also provides substantial increases for other key programs. Helping the homeless: There is a 47 percent increase for homeless assistance grants for emergency food and shelter, housing and needed support of services.

Immunizing children: The budget provides \$888 million, an increase of 68 percent over the current funding level, to greatly expand immunization efforts.

Easing school-to-work transition: \$300 million is requested to fund a national framework to help States and cities ease students' transition from the education system to the world of work. This is a 200 percent increase over fiscal year 1994 levels.

Stimulating economic conversion: 3.4 billion would be available for a wide range of programs to help the Nation and cities shift from a military to a civilian economy. Kansas City, Missouri, again—and this is true of many other cities—is facing right now a crisis of 1,500 layoffs at Allied Signal, a prime contractor for the atomic energy commission. And we need to be in a position to have those employees transition into new employment if we can't reverse the possible cut in funding.

Expanding summer youth employment: Over \$1 billion, an increase of 19 percent, would be invested in programs to provide additional summer jobs for young people. This is extremely important. The idleness that we find in the cities is simply a powder keg. But for the riot two summers ago in Los Angeles, we would not have been able to deal with the summer employment question as effectively as we have over the last two summers.

And even there, it has been quite deficient. So we are pleased with the 19 percent increase in the President's proposal.

These investment initiatives are a true demonstration of the administration's commitment to urban life. However, mayors have identified some problems in this budget. Some of the new spending is coming at the expense of existing programs which mayors feel are still and perhaps more than ever of extreme importance and deserving of full funding. While we appreciate that tough choices must be made, we are obligated to point to several proposed funding reductions which could hurt economic recovery efforts in our cities.

Under the President's budget, the community development block grants, CDBG programs, would have \$240 million less to allocate to eligible cities and other units of government for fiscal year 1995. This would result from HUD's taking of \$200 million for a new neighborhood LIFT program and the earmarking of \$40 million for existing special program grants.

The Conference of Mayors does not oppose the administration seeking additional funds for flexible economic development programs, and in the past we have actively supported programs which were similar to our understanding of the LIFT initiative.

However, we vehemently oppose reducing the overall funding level for CDBG to pay for new programs. CDBG is a program that has worked for 20 years to provide mayors with real tools to help foster economic and community development. And as was stated by the National Community Development Association, the flexibility

provided mayors under CDBG must not be sacrificed in an effort to provide the Federal Government with increased programmatic flexibility.

CDBG should be fully funded in fiscal year 1995 and funding for LIFT or any other worthwhile new initiatives should come from other sources. CDBG is the only flexible pot of money in the cities and without the community development block grant, we are going to find that our ability to initiate housing programs, valuable housing programs will be diminished.

The administration's budget also calls for serious reductions in public housing assistance, the Low-Income Home Energy Assistance Program, elderly and disabled housing, and the Home Investment Partnership Program, all of which greatly concern the U.S. Conference of Mayors.

In addition, the budget calls for a 25 percent cut out of the 800 million for funding for mass transit. It drops from 800 million to 600 million. And this funding for mass transit we think is extremely important to the cities. If the cuts are as approved, as submitted it would result in higher transit fares and/or reductions in services which would be tragic because the people who use those systems are, in all probability, the poorest people in our communities who can afford the least to have their fares increase.

I note the administration does call for a 40 percent increase in mass transit capital spending, but mayors are concerned that the reduction in operating assistance could limit the ability of our transit systems to take advantage of this increase. This is because a transit system must demonstrate that it has enough capital to operate a new system where it can begin construction, a test that would be more difficult to pass following an immediate and significant reduction in operating assistance. Therefore, we urge that \$200 million of the increase suggested for capital grants be used to restore funding for operating assistance.

Much of our efforts in 1993 were, as highlighted earlier, devoted to the critical issue of crime. We as mayors understand more than most the devastating impact of crime on both the social and economic fabric of our communities. Clearly, jobs cannot be created and people not empowered in an unsafe environment. That is why we have been so vocal in our support of the administration's crime initiative.

But as much as we need enhanced law enforcement efforts, law enforcement alone cannot provide a long-term solution to the problem of crime. As we stated in a letter to the President transmitting our National Action Plan to Combat Violent Crime, when an employment program is cut or when a housing, recreation, or education program is cut, both the mayor and the police chief know that public safety in their city is being compromised at least as much as if the police were laid off.

And most importantly, jobs are key in our efforts to prevent crime and violence. The United States Conference of Mayors will continue to work both with the administration and the Congress to explore creative opportunities to develop and promote job creation initiatives perhaps as an integral part of welfare reform, a subject on which I testified this morning before the Senate Finance Com-

mittee, or in some other context. Employment builds families, employment builds communities, employment sustains our Nation.

In summation, the United States Conference of Mayors congratulates the President on this budget and wishes to express our thanks for his concern over and involvement with the mayors as we continue to provide attention to the needs of our cities. We as mayors will continue to work as partners for progress. Thank you very kindly.

[The prepared statement of Hon. Emanuel Cleaver II follows:]

PREPARED STATEMENT OF HON. EMANUEL CLEAVER II, MAYOR, KANSAS CITY
MISSOURI, ON BEHALF OF THE UNITED STATES CONFERENCE OF MAYORS

Mr. Chairman and members of the committee, I am Emanuel Cleaver, II, Mayor of Kansas City, Missouri. I appear before this committee today on behalf of the United States Conference of Mayors, and appreciate the opportunity to present our views on the administration's proposed budget for fiscal year 1995.

Attached to my written comments is the report entitled, *The Federal Budget and the Cities*, which is prepared annually by the United States Conference of Mayors. The report provides a detailed narrative and analytical analysis of the fiscal year 1995 budget as it relates to key municipal priority programs. I encourage the committee to review the document closely, and will today simply summarize our analysis.

This year's budget proposal gives mayors our first look at where America's cities fit into the Clinton Administration's fiscal priorities. We are encouraged that the administration has followed through on its pledges to invest in America's cities, and we are generally pleased about the investment choices made in the budget. And I want this committee to understand that mayors appreciate the tough choices that need to be made. We live in an era of budget restraint, both at the local and federal levels. However, mayors believe that our nation must continue to invest in our capital, both human and physical, if we are to reverse the cycle of disinvestment in our urban areas.

Many of the programs and investment priorities mayors have requested for the cities are found in the President's proposal, so on balance, this is a good budget for cities, with federal funds being focused on some of our most serious problems.

I would like to highlight some of the key municipal investment increases and new initiatives contained in the budget. First and foremost, the President's budget follows through on his pledge to help stop the spread of violent crime which is tearing our cities and neighborhoods apart. The budget provides \$2.4 billion for 50,000 additional police officers and a range of other law enforcement initiatives. Mayors applauded this funding level as the first installment in the federal effort to help fund 100,000 police officers and urge the Congress to approve the President's fiscal year 1995 funding request. Mayors have been leaders in the effort to secure federal support for increased law enforcement and are actively pushing for passage of a crime bill which provides cities with real resources to help fight violent crime.

It is our hope that this committee and the entire congress will approve the President's funding request so that when a crime bill is enacted, soon I hope, there will be funding immediately available to get police on the streets.

The budget also provides substantial increases for other key programs:

Helping the homeless—There is a 47 percent increase for homeless assistance grants for emergency food and shelter, housing and needed supportive services.

Immunizing children—The budget provides \$888 million, an increase of 68 percent over the current funding level, to greatly expand immunization efforts.

Easing school-to-work transition—\$300 million is requested to fund a national framework to help states and cities ease student's transition from the education system to the world of work. This is a 200 percent increase over fiscal year 1994 levels.

Stimulating economic conversion—\$3.4 billion would be available for a wide range of programs to help the nation and cities shift from a military to a civilian economy.

Expanding Head Start—Over \$4 billion, an increase of 21 percent, would be invested in larger and more effective Head Start pre-school programs.

Expanding summer youth employment—Over \$1 billion, an increase of 19 percent, would be invested in programs to provide additional summer jobs for young people.

These investment initiatives are a true demonstration of the administration's commitment to urban America. However, mayors have identified some problems in this budget. Some of the new spending is coming at the expense of existing programs which mayors feel are still, and perhaps more than ever, of extreme importance and deserving of full funding. While we appreciate that tough choices must be made, we are obligated to point to several proposed funding reductions which could hurt economic recovery efforts in our cities.

Under the President's budget, the Community Development Block Grant (CDBG) program would have \$240 million less to allocate to eligible cities and other units of government for fiscal year 1995. This would result from HUD's taking of \$200 million for a new neighborhood "LIFT" program, and the earmarking of \$40 million for existing special purpose grants. The Conference of Mayors does not oppose the administration seeking additional funds for flexible economic development programs, and in the past has actively supported programs which were similar to our understanding of the "LIFT" initiative. However, we vehemently oppose reducing the overall formula funding level for CDBG to pay for new programs.

CDBG is a program that has worked for 20 years to provide mayors with real tools to help foster economic and community development. And as was stated by the National Community Development Association, the flexibility provided mayors under CDBG must not be sacrificed in an effort to provide the federal government with increased programmatic flexibility. CDBG should be fully funded in fiscal year 1995 and funding for "LIFT" or any other worthwhile new initiative should come from other sources.

The administration's budget also calls for serious reductions in public housing assistance, the Low-Income Home Energy Assistance Program, elderly and disabled housing, and the Home Investment Partnership program, all of which greatly concerns the Conference of Mayors.

In addition, the budget calls for a 25 percent cut, from \$800 million to \$600 million; in the amount of funding available for mass transit operating grants. This would result in higher transit fares and/or reductions in services. I note that the administration does call for a 40 percent increase in mass transit capital spending, but mayors are concerned that the reduction in operating assistance could limit the ability of our transit systems to take advantage of this increase. This is because a transit system must demonstrate that it has enough capital to operate a new system before it can begin construction—a test that would be more difficult to pass following an immediate and significant reduction in operating assistance. Therefore, we urge that \$200 million of the increase suggested for capital grants be used to restore funding for operating assistance.

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But as much as we need enhanced law enforcement efforts, law enforcement alone will not provide a long-term solution to the problem of crime. As we stated in a letter to the President transmitting our *National Action Plan to Combat Violent Crime*, when an employment program is cut, or when a housing, recreation, or education program is cut, both the mayor and the police chief know that public safety in their city is being compromised at least as much as if police officers were laid off.

And most importantly, jobs are key in our efforts to prevent crime and violence. The United States Conference of Mayors will continue to work with both the administration and the Congress to explore creative opportunities to develop and promote job creation initiatives, perhaps as an integral part of welfare reform, a subject on which I testified this morning before the Senate Finance Committee, or in some other context. Employment builds families. Employment builds communities. Employment sustains our Nation. In summation, the United States Conference of Mayors congratulates the President on this budget and wishes to express our thanks for his and the entire administration's continued attention to the needs of our cities. We, as mayors, will continue to work as partners for progress.

Chairman SABO. Thank you, Mr. Mayor, for your very excellent testimony.

I am curious about one thing about programming. It seems to me that one of the programs that the President has that has emerged

and that has great potential for the cities, that is the National Service Program. I expect what is typical of most urban centers is that there are fewer—particularly as people are working more and more hours, more and more difficult to get volunteers for particularly activities that impact kids. I am told the real big problems are ages 12 through 16 who are too young to really work, and I would really urge the mayors to look at how you could make maximum use of that program to get those students who qualify for that program working in urban centers, particularly with youths in a variety of programs.

Mr. CLEAVER. We are in full support as an organization of the National Service Program. One of things we have got to be careful with is allowing young people or people old enough to permanently enter the work force that they are not presented with inflated expectation.

Chairman SABO. Yes.

Mr. CLEAVER. That they enter into a National Service Program and when it is defunded or the funding is reduced they end up unemployed and then they are headed for the welfare rolls.

I testified earlier this morning on the welfare reform package or packages, and one of the things that I emphasized this morning was that we should not even discuss welfare reform unless we are also talking about opportunities for training and employment.

And while national service is something that I support wholeheartedly, in fact Nick Lowrey, who is the place kicker for the Kansas City chiefs, worked on the development of that program and is quite active in Kansas City as we are trying to put together several proposals, but I don't know whether that program is going to be as valuable in the long run as we would like. It certainly—if it is operated the way it has been proposed, it would help young people who are in college with their tuitions, after having worked for a minimum wage and that is good. We need it.

Chairman SABO. That is what I am suggesting. I would really try to get lots of those kids working on city projects with the youth.

Mr. CLEAVER. It would not upset me. I would not be angry if we had hundreds of kids working out of city hall and in many of our community centers.

Chairman SABO. I really think that is worth pursuing in a very aggressive fashion on the part of mayors.

Mr. CLEAVER. Thank you for that suggestion.

Chairman SABO. I thank you for your testimony.

Mr. Lawrence Larsen, the constituent of Congressman Walker. Mr. Larsen, welcome to the committee.

STATEMENT OF LAWRENCE LARSEN, CONSTITUENT OF CONGRESSMAN ROBERT WALKER

Mr. LARSEN. Thank you, sir. I don't have written documentation to go with my testimony because I don't have those kind of facilities, but I would like to tell you how I feel as a private citizen. I thank you and Congressman Walker for scheduling me to come here.

I am 70 years old and I retired in 1986. I have lived in Lancaster, Pennsylvania since 1991. I formerly lived for 42 years in

Baltimore, Maryland. I came to Baltimore from Seattle, Washington, where I was born and raised. I served in——

Chairman SABO. Is it a Scandinavian name also?

Mr. LARSEN. I have a Scandinavian name and it is Norwegian, not Swedish.

Chairman SABO. A fellow Norwegian.

Mr. LARSEN. My father was born in Norway and my grandfather was born in Norway.

Chairman SABO. What part?

Mr. LARSEN. Listra, southwest of Oslo.

Chairman SABO. Larsen with an "E-N," I would guess Danish.

Mr. LARSEN. Nobody ever spells it "E-N." It always gets spelled "O-N."

I served 38 months active duty in World War II mainly as an attack bomber pilot. I was drafted and made my way up to a captain in the Army Air Forces. I graduated in 1949 from the University of Washington as a teacher and since then I have done a lot of things with my life.

I attended Towson State Teachers College and the University of Maryland's graduate school. I have been a commercial pilot, a flight instructor, and an elementary school teacher. I have been a manufacturing and production control manager and I've built both commercial and housing type projects. I have been a financial and budget manager and have run various computer operations. The last 12 years of my working career I worked for the Social Security Administration in Baltimore designing, implementing and installing major logistics and administrative systems. With that background, I want to let you know that I have accumulated extensive work experience and what I have to say is not just manufactured someplace; it comes from having seen many things go on out in the world and in our Nation itself.

Today, I am a volunteer. I do taxes for the elderly in the VITA program; arbitrate Better Business Bureau cases; sing in my church choir; and am a literacy volunteer teaching reading and mathematics for the last 6 to 7 years.

I asked Congressman Walker to schedule me to come here so I could talk to you about budget areas of my concern. The first of these is a matter of fairness. And to cover what I want to say about that, I have got to go back to the 1993 budget session. And in that session, actions were taken to tax 95 percent of Social Security income for so-called "rich senior citizens."

I will be honest, Congressman. My total income is a little over \$40,000 a year and receive got most of that because I made good investments when I was young. Due to the 85 percent rule I will pay \$800 more during 1994 in taxes, a 15 percent increase. When my fiancée and I are married in June, we will pay about \$2,700 more in taxes than we paid individually, in total, in 1993, almost a 50 percent tax increase. I do not mind paying my share, but when you look at most other people, at income levels of \$115,000 single and \$140,000 joint, they don't pay any additional taxes in 1994. So I don't think that the 1993 budget legislation was too fair an action, but I am going to have to pay it, obviously. However, I urge that in your future considerations you think about fairness

and how to spread these tax burdens equitably among all the people, not just a few as was done in the 1993 legislation.

In the budget that you are working on for 1995, I was pleased to hear this morning that Congressman Schaefer was working together with Congressman Penny to come up with the additional reductions in the budget which I thought should have been previously considered and passed. I feel that way because the President made a commitment to do that and then when it came time to get the expected \$90 billion reduction he and the administration leaders came in and said, "well, we really can't do that" and they used their maximum clout to defeat the Penny-Kasich bill.

So I urge you in your deliberations for 1995 to look carefully at what Congressmen Schaefer and Penny have done. I can't leave Congressman Kasich out because I believe he was and is a key man. I'm completely behind their aims and I know there is \$90 billion at least there that I think can be cut and it will be the fiscally correct thing to do.

So again, I feel there is a matter of trust. What was promised wasn't done. For us that are out there in the sticks, if you will, failure to do what was promised significantly affects the way we feel about legislators. I am not complaining about you personally, but I am saying that you can readily understand why we have so much difficulty trusting our Congress and the current administration.

In another area of the budget I urge extreme caution on passing the health program that you are now looking at. I spent the last 20 years of my life developing and working with major computer-based systems. None of them could even come close to the size or complexity of the health care proposals you are evaluating. I did learn one thing about big systems and that is that you can't change them overnight or even in a number of years. You cannot make revolutionary systems changes because they are not going to be successful. Further, they have an even less chance of being successful if you are dealing with a very large, complex and heavy-handed bureaucracy.

At the very least, I think pilot programs should be considered. I think there should be evolutionary changes, and I think most, if not all of the proposals should be tested and proven in pilot efforts. For instance, budgetary estimates for savings ought to be tested out. Are they really going to happen? Shifts in policies and procedures need to be carefully implemented and tested in real life.

I know that when you impose a very heavy bureaucracy over something as major and complex as this area, it really is a tough thing to make work well. As a side comment, it is strange that all over the world socialism is being replaced by democracy and capitalism. But as I see it, in America we seem to be going in a different direction. We are going against the tide and I, for one, maybe it is because I am 70, have problems with that direction and I think there are a lot of other Americans who agree with me. I urge you to reject this movement.

So, once again, trust is involved and I am not at all enamored with big government as the establishment or persons to trust. I never have been and never will be.

I think another of the key problem areas in the 1995 budget is welfare reform. It may be as critical a problem as any we have and

more a crisis than health care. There are several good welfare reform programs proposed for congressional review. One, which I know about, is sponsored and strongly supported by Rick Santorum, a congressional Representative from our State of Pennsylvania.

I have studied his program proposals for reform in depth and it makes sense to me as an ordinary citizen. If enacted, I think it would be a significant improvement over what is being done now. And in my opinion welfare isn't being done very well today. In fact over the past 30 years it has been one of the major failures in the area of "governmental solutions."

Another concern for me, and I don't quite know how to say this, is the apparent penchant for "pork barrel" actions by Congress. Although this kind of spending legislation has been around for a long time, I think it is time for Congress to stop doing it. I think the people at home would understand it if you were not bringing home "pork" every time you come back for a visit. Especially with the deficit we now have.

It seems to me I heard that the earthquake bill for California relief started out at around \$7.5 billion and it ended up around \$9 billion, with many extra "goodies" getting tacked on it as it went through Congress. I may be wrong, Mr. Chairman, but I think over a billion additional dollars were added before the bill was passed. That is something that causes ordinary citizens like me to be very mistrusting of our legislators. We don't see why that is necessary. We see why it is necessary to help California, but not to add over a billion dollars as the bill goes through for passage. So I urge you to think of this and hopefully it can cause the Budget Committee to cease and desist "pork" actions in the 1995 budget.

Lastly, I know you know more than anybody else that the deficit will not stop rising unless we do some hard decision-making. I think any new taxes and/or cost savings should go to deficit reduction, or at least a majority of it should go for such reduction, not to implement new government programs or to increase current programs.

In my opinion, the Federal Government has to lean toward and eventually adopt a balanced budget philosophy. I have got to balance my budget. Forty-nine out of the 50 States have to do it. You have to balance your budget. Why shouldn't the Federal Government have to do it? It may mean that everybody has to take a hit, but we take a hit in our own budget process at home. It often means I don't get a new car, or I don't buy a new house or I don't get a new TV, or I don't take a trip. I do those things, and a senior citizen today really has to learn to live that way because our income is generally more fixed and not readily supplemented. So you learn to live with the pain of budget balancing.

In conclusion, I am asking you to be fair in your budget considerations and to act in a manner that builds trust with your constituents in all of your decisions.

And on a personal basis, I would like to leave with this one comment: What I see happening today is a conscious effort to promote the idea that only the government can provide us security: security from crime; security from health problems; security in jobs, etc. I am not talking about national security, I am talking about

day-to-day domestic security where a lot of people are being fed the idea that the government is best qualified to provide that security.

But I would urge you to consider this thought: When you buy into the idea of getting your security from big government, you pay for it dearly with a part of your individual rights and freedoms. And I, for one, am not anxious to do that. I, for one, am not going to buy that. I feel that every individual must accept major responsibility for their security, unless we are willing to throw out democracy and choose socialism.

I leave you with that, Congressman. Thank you very much.

Chairman SABO. Thank you, Mr. Larsen, for taking the time coming here and giving us your views. We appreciate that effort and that interest.

Mr. LARSEN. Thank you.

Chairman SABO. Thank you.

Mr. Gage, representing the National Association of Public Hospitals. You are our clean-up hitter. You are batting ninth or I am not sure how we can describe it, but you are the last person on our agenda today and welcome.

STATEMENT OF LARRY S. GAGE, NATIONAL ASSOCIATION OF PUBLIC HOSPITALS

Mr. GAGE. Thank you very much. I certainly appreciate the—

Chairman SABO. Your entire statement will be put in the record.

Mr. GAGE. Yes. Thank you. I do appreciate the stamina of both you and your staff with these hearings. It is useful to have the opportunity to present NAPH's views to the Budget Committee as well as to the authorizing committees with which we more commonly work.

I will, in fact, very, very briefly summarize my prepared testimony. NAPH membership includes over 100 large metropolitan area hospitals and health systems. In Minnesota, the Hennepin County Medical Center and the Saint Paul-Ramsey Medical Center are both NAPH members.

Our members have combined revenues of about \$16 billion. They provide over 71 percent of their services to Medicaid and uninsured patients. In other words, these hospitals already serve as "national health insurance" by default in our country. At the same time, they train a substantial proportion of doctors, nurses, and other health professionals and they continue to concentrate their services on low-income uninsured patients.

Twenty-four percent of the discharges and 37 percent of over 17 million outpatient and emergency room visits to these hospitals in the last year were also by uninsured patients who are not even Medicaid eligible.

NAPH supports the priorities reflected in the President's budget proposal for Health and Human Services. In particular, we are pleased that the President continues to recognize the urgency of the AIDS epidemic and the need to commit resources to treatment and research programs. As disproportionate providers of HIV and AIDS services, we urge Congress to provide at least the level of funding proposed by the President for the Ryan White Act emergency assistance grants to cities.

We also agree with and support other public health priorities identified in the President's budget, including childhood immunization, tuberculosis treatment and research, and substance abuse treatment. In the face of exceedingly tight fiscal resources, these critical public health issues cannot be ignored, even if addressing them requires us to make difficult budget choices.

NAPH is concerned, however, that \$1.1 billion in funding for the public health and access initiatives in the President's health reform proposal are not included in the HHS budget, while the proposed \$2.1 billion in Medicare and Medicaid reductions are. If a budget that includes proposed health reform savings without the corresponding expenditures is adopted, then Congress later is going to have to identify additional sources of funding to pay for the expenditures during the transition to some form of health reform. This approach appears to contradict the President's stated commitment to dedicate Medicare and Medicaid savings to health reform by and large rather than to overall deficit reduction. We also urge the committee to treat savings and expenditures related to health reform consistently so that we have money left to pay for whatever the Congress finally enacts.

With respect to health reform, I will simply tell you today that the safety net that we represent, which is serving in the breach for the 37 million uninsured patients, is beginning to fall apart in many parts of the country. We continue to be burdened by multiple crises, including persistent State and local budget shortfalls. Some parts of the country are still under severe recession.

There is a continuing increase in the number of uninsured and underinsured and an increasing inability or unwillingness of many providers to shift costs to private insured patients as the private sector gets way out ahead of the Federal Government in the area of reform.

For this reason, Mr. Chairman, we have endorsed President Clinton's Health Security Act, although we do have a number of concerns about the complexity of the health alliance structure and the administrative bureaucracy in that act. We believe many of the principles, particularly the core principles of universal coverage, are included, and that the President provides us an excellent foundation upon which to build a comprehensive, universal, mandatory health plan.

I might add in concluding that we also believe that States like Minnesota and Hawaii, Washington State, and others that have begun to march down the health reform route on their own, can be permitted to do their own thing and to basically lead the way, so that we will have the opportunity to enact a sensible transition.

We are very concerned about the transition to health reform, however, and not every State is equally ready to administer reform. In fact, I think the last witness summed it up quite well. You cannot move large complex systems overnight. And we share those concerns. Finally, we are also concerned that we are going to move in the direction of health reform primarily in the name of cost containment, without remembering that there are 37 million Americans out there who require coverage and who are denied coverage under our current system. Thank you.

[The prepared statement of Larry S. Gage follows:]

PREPARED STATEMENT OF LARRY S. GAGE, PRESIDENT, NATIONAL ASSOCIATION OF PUBLIC HOSPITALS

Mr. Chairman, Members of the Committee. I am Larry Gage, President of the National Association of Public Hospitals (NAPH). I am pleased to have this opportunity to testify before the Committee on the Administration's FY 1995 budget. I would also like to take this opportunity to bring you up to date on the importance of universal, mandatory national health reform to America's urban health safety net hospitals and health systems.

NAPH's members include over 100 of those safety net institutions. With combined revenues of almost \$16 billion, they provide over 71% of their services to Medicaid and low income uninsured and underinsured patients. In other words, these hospitals already serve as "national health insurance" by default in most of our nation's urban areas. At the same time, they train a substantial proportion of our nation's doctors, nurses, and other health professionals.

Safety net hospitals continue to concentrate their services on low income patients—serving as both hospital and family doctor for the uninsured. In 1991, 24% of all discharges and 20% of all inpatient days in NAPH member hospitals were not sponsored even by Medicaid. 37% of over 17 million outpatient and emergency room visits to these hospitals were also by uninsured patients.

COMMENTS ON FY 1995 BUDGET

NAPH supports the priorities reflected in the President's budget proposal for Health and Human Services. In particular, we are pleased that the President continues to recognize the urgency of the AIDS epidemic and the need to commit resources to treatment and research programs. As disproportionate providers of HIV and AIDS services, NAPH members urge Congress to provide at least the level of funding proposed by the President for Ryan White Act emergency assistance grants to cities. These grants are crucial to the ability of hard-hit metropolitan areas to treat and combat the spread of this deadly disease. The failure to provide any increase in funding for preventive activities through the Centers for Disease Control is troubling, however, as this funding has not received an increase since 1991.

NAPH agrees with and supports other public health priorities identified in the President's budget. In particular, we support the increased funding for childhood immunizations, tuberculosis treatment and research, and substance abuse treatment. In the face of exceedingly tight fiscal resources, these critical public health issues cannot be ignored, even if addressing them requires us to make difficult budget choices.

NAPH is concerned, however, that \$1.1 billion in funding for the public health and access initiatives in the President's health reform proposal are not included in the HHS budget, while the proposed \$2.1 billion in Medicare and Medicaid reductions are. If a budget that includes proposed health reform savings without the corresponding expenditures is adopted, Congress could later be required to identify additional sources of funding to pay for the expenditures. This approach appears to contradict the President's stated commitment to dedicating Medicare/Medicaid savings to health reform rather than to overall deficit reduction. As you develop the budget resolution, NAPH urges the Committee to treat savings and expenditures related to health reform consistently.

IMPACT OF HEALTH REFORM ON URBAN SAFETY NET HOSPITALS

As the Congress begins to deliberate health reform, it is essential that you understand that the importance of urban safety net hospitals and health systems extends to the services they provide to their entire communities, not just the poor. For example, they often serve as the only provider of many costly, specialized medical and public health services, such as trauma care, burn care, neo-natal intensive care, high risk pregnancy services, and emergency psychiatric care.

NAPH member hospitals have for many years served as the most "essential" providers in their respective urban communities, playing this role despite facing many fiscal and administrative obstacles. The situation of many urban safety net hospitals continues to worsen today. The nation's urban public hospitals continue to be burdened by multiple crises—including persistent state and local budget shortfalls—escalating federal and state curbs on Medicaid eligibility and spending—continuing increases in the number of uninsured and under-insured—and an increasing inability or unwillingness of many providers to shift uncompensated costs to privately insured patients.

For all of these reasons, NAPH decided in late January to endorse the major principles and key provisions of President Clinton's Health Security Act.

It is not that we believe that the President's proposed bill is perfect, or that it cannot be improved. Indeed, we are concerned that the untested concept of "managed competition" cannot in the foreseeable future meet all of the health and social needs of low income residents of our nation's inner cities. However, we are convinced that the Health Security Act offers you an excellent foundation upon which to build a comprehensive, universal, mandatory health plan.

NAPH members believe that President Bill Clinton has offered Americans our best opportunity in over half a century to join the family of civilized nations that make adequate health care a basic right of citizenship. NAPH strongly supports President Clinton in this historic effort. NAPH members are unanimously committed to working with the President—and with the members of this Committee—to achieve enactment of universal, mandatory health coverage as swiftly as possible. We simply cannot afford to let this opportunity slip away, like so many others in the last 50 years.

In the remainder of my testimony, I have provided the Committee with new information quantifying the scope of the crisis facing urban safety net hospitals and health systems. I have also spelled out a number of concerns and possible amendments we would like you to consider as you move ahead to mark up health reform legislation.

Less than two weeks ago, NAPH released a new 170 page Special Report on the crisis facing urban safety net hospitals in America today. Let me illustrate the urgency of this crisis with a few facts from that new Report:

Safety net hospitals today are bursting at the seams, with an extraordinary volume of inpatient and outpatient care. 60 NAPH member hospitals across the nation averaged over 270,000 emergency room and outpatient visits and 14,000 admissions, and totalled 17.3 million emergency and outpatient visits, in 1991. Despite overcapacity in many parts of the hospital industry, NAPH members averaged a 79% occupancy rate in 1991, almost 27% greater than the overall average for hospitals in the 100 largest cities for 1990.

Between 1980 and 1990, low income patients were increasingly concentrated in just a small handful of inner city hospitals. Public general hospitals saw an increased Medicaid utilization during this period of 43.5%, and the increase in public university hospitals was over 39%, compared with reduced Medicaid utilization in private university hospitals of nearly 14%. The proportion of self pay patients also increased nearly 17% in urban public hospitals between 1980 and 1990, as compared with decreases of 16-41% in all other categories of hospitals.

In the largest 100 cities in the 1980s, the use of inner city hospital emergency rooms and out patient departments increased by over 39% between 1980 and 1990, to nearly 100 million visits. Urban public hospitals represent just 7.4% of all hospitals but provided 18% of outpatient care and 19% of emergency care in 1990.

Some of the largest urban public hospitals provide a staggering volume of emergency and outpatient care that could be provided in a more appropriate setting if one were available. For example, Atlanta's Grady Memorial Hospital provided nearly 865,000 emergency and outpatient visits in 1990; Cook County Hospital, over 670,000; Los Angeles County plus USC Medical Center nearly 645,000. Urban public hospitals in the northeast experienced the highest average volume of outpatient and emergency hospital care, with an average of 413,000 visits in 1990.

Emergency and clinic patients are waiting longer to see doctors or be admitted. 58% of NAPH hospitals reported periodic waits by emergency department patients of 12 hours or more for admission, and half of all hospitals surveyed reported that some patients were forced to wait more than 24 hours.

Safety net hospitals continue to concentrate their services on low income patients—serving as both hospital and family doctor for the uninsured. In 1991, 24% of all discharges and 20% of all inpatient days in NAPH member hospitals were not sponsored even by Medicaid. 37% of all outpatient and emergency room visits were also by uninsured patients.

Safety net hospitals also continue to be uniquely reliant on governmental funding sources. Just 12% of the gross revenues of safety net hospitals were derived from private insurance and 16% from Medicare in 1991, while 71% were attributable to Medicaid and "self pay" patients. Average gross revenues at NAPH member hospitals were \$92 million for Medicaid patients and \$78 million for self pay patients (who are typically uninsured and thus "financed" only by direct local governmental subsidies and other mechanisms such as Medicare and Medicaid disproportionate share hospital adjustments).

In other words, carrying out their missions of serving the poor and providing essential community-wide services, NAPH member hospitals would have lost \$3.2 billion dollars in 1991 without local taxpayer subsidies and Medicaid "disproportionate share hospital" (DSH) payments. Such payments enabled these hospitals to break

even and keep their doors open; yet both sources of financing have come under pressure from federal, state, and local governments in recent years. 67 NAPH members surveyed had total revenues of \$12.2 billion and total expenses of \$12.4 billion. They would have experienced significant losses, however, if not for local taxpayer subsidies of \$2.1 billion. In addition, we estimate that these hospitals received net Medicaid DSH payments totalling approximately \$1.4 billion based on an analysis of 1992 DSH data. On average, surveyed hospitals relied on Medicaid DSH payments for 12 percent of their total revenue.

As a result of this funding crisis, the many community-wide services provided by safety net hospitals are in danger of deterioration as well. Trauma centers, high risk obstetric units, emergency psychiatric units, emergency drug abuse treatment programs, burn centers, neonatal intensive care units—all are overflowing, at a time when state and local budget crises often require reductions, not increases, in funding.

The remainder of my testimony will describe a number of other NAPH concerns and recommendations with respect to health reform generally, and the Clinton plan in particular.

1. *With respect to the concept of "Essential Community Provider," NAPH strongly recommends that hospitals as well as clinics (and other federal grantees) be designated essential community providers, in order to ensure continued access for low income patients who rely on these providers and continued availability of their community-wide services.*

NAPH accepts the concept of managed competition in principal and believes it can be given an opportunity to work wherever feasible. However, based on our extensive experience serving the urban uninsured, we are concerned that managed competition may prove ineffective for many years in meeting the needs of some areas, including inner cities and isolated rural areas. We believe this is true for several reasons, including the lack of a sufficient number and variety of plans and providers to guarantee access and choice even for individuals who have been issued their "card," and the checkered history of efforts to introduce competitive models to such areas (such as the California PHP scandals of the early 1970s and the Florida scandals of the 1980s).

It must be recognized, in implementing "managed competition," that the playing field is not currently level for either providers or patients in the inner cities and remote rural areas. To be equitable, and to guarantee access for patients in such areas to the broadest range of health and social services, a plan must ensure that all safety net providers (including public hospitals that currently serve a high volume of low income patients, as well as health centers and other federal grantees) are automatically determined to be ECPs and given the opportunity to participate in (and be paid by) all plans serving these patients.

In that regard, the Administration includes in its plan the designation of certain providers as "essential community providers" (ECP), and provides additional support and assistance to the providers so designated (including the guarantee that they will be paid for services rendered to enrollees of all plans in underserved areas). While hospitals are eligible to apply to the Secretary to be designated ECPs, they are not granted the automatic designation granted to several other categories of providers. *NAPH believes it is essential that any statutory definition of ECP provide for automatic designation of certain hospitals as well as health centers and other providers.* For your information, I have attached to my testimony a copy of a position paper provided to the Administration early last year on this subject. Included in this paper are suggestions for a number of criteria that might be written into the statute in order to carefully target any automatic designation of hospitals as ECPs, including criteria already used in the past by this Committee in areas such as Medicaid drug pricing and the requirement under Section 1923(b) that all states designate, at a minimum, the highest volume providers of Medicaid and low income care as "disproportionate share hospitals."

2. *Health reform must not be financed through elimination or substantial reduction in disproportionate share hospital payments unless other protections and payments are substituted for the highest volume providers of care to our most vulnerable populations.*

NAPH strongly supports a broad array of financing mechanisms for universal health coverage, including taxes on excess employee health coverage, so-called "sin taxes" on alcohol and tobacco, sliding scale cost sharing for higher income insured individuals, and increased Medicare cost sharing. We would also support a tax cap on the deductibility of premiums by both corporations and individuals.

NAPH's most serious concern in the areas of financing has to do with the apparent proposal to finance a substantial part of health reform through Medicare and Medicaid reductions generally, and through elimination of the so-called "disproportionate share hospital" (DSH) adjustments in particular. The DSH adjustments—which this Committee has played a major role in enacting and improving over the years—have been of great importance in helping safety net hospitals provide the broad range of additional services needed by low income patients and urban (and remote rural) communities.

With respect to Medicare, since the Medicare program will remain largely outside of health reform, we believe the Medicare DSH adjustment should remain intact. We further recommend that Medicare DSH payments be strengthened for the very highest volume DSH providers (especially if there is an elimination or substantial reduction in Medicare graduate medical education funding, as is also proposed).

With respect to Medicaid, NAPH acknowledges that there have been numerous instances where states have used DSH funds for other than their intended purpose, and that with the phase-in of universal coverage this adjustment is unlikely to be preserved in its current form. However, it is important to point out that there are also many states which have not treated Medicaid DSH adjustments as a scam or a new form of revenue sharing—which have used the adjustment as it was intended to be used, to fund substantial additional programs and services to Medicaid recipients and the uninsured poor. New data collected by NAPH shows, for example, that 100 of the highest volume providers of care to Medicaid patients and the uninsured collected over \$2 billion in net Medicaid DSH payments in 1992. These payments were essential to their ability to keep their doors open and preserve access for both insured and uninsured patients in many underserved urban areas.

NAPH therefore strongly recommends that Medicaid DSH be carefully phased out, not terminated abruptly. If universal mandatory coverage is enacted, with residual DSH payments targeted on the highest volume providers of care to the poor. Moreover, even if Medicaid DSH is carefully phased out, as noted in the previous section of my testimony, many residual community-wide public health and social services will continue to be needed even after most uninsured Americans have been given their "card." For these reasons, NAPH strongly supports the inclusion of the "vulnerable population" payment proposed in the Clinton plan, although our research and analysis indicate that this adjustment should be in the range of \$3 billion nationally rather than the \$800 million currently allocated.

3. NAPH is concerned about the provision and funding of services for many individuals we currently serve who may not be eligible—or who may face significant barriers to enrollment—under the President's plan.

One of NAPH's most important principles is that national health reform must be nothing less than *universal and mandatory for all residents*. While the President's plan has expressed the goal of universality, and appears to be mandatory for those who are eligible, NAPH is especially concerned that there are certain populations who will continue to fall through the cracks—either intentionally or unintentionally—and that there are other potential barriers to enrollment that, if not adequately understood and addressed, will have the same effect as being ineligible for coverage in the first place.

Two populations likely to be excluded from coverage that have generated considerable discussion to date are illegal immigrants and prisoners. NAPH members and other urban public hospitals serve a very substantially disproportionate number of both populations and will be especially hard hit if they remain wholly outside the system.

With respect to illegal immigrants the vast majority of health care currently accessible to this population is in urban and rural safety net hospitals and clinics. This care is funded by a precarious patchwork of federal, state and local funding, augmented by cost shifting wherever possible. Recent federal programs such as SLIAG, which was targeted at legal (not illegal) immigrants, have in the past been able to pay for some of these services. However, most such funding has now been reduced or terminated, and House efforts this summer to add more money to the budget reconciliation bill failed. Unless either coverage or funding is made available in health reform, the potential exists for the situation of the population to become far worse. With the expressed goal of "converting" Medicaid and other current revenue sources into premium income for those populations who will receive coverage, it is likely that there will be far less ability in the future even than there is in already inadequately funded system today to pay for the care that will continue to be needed by this large population. We cannot make illegal immigrants—or their health needs—simply disappear by refusing to cover them under health reform. We

must make some sort of provision for their care if we are to have a truly unified system.

With respect to prisoners, the issue is equally complex. Prisoners are today excluded from Medicaid coverage and denied many other rights. Their care is sometimes paid for by the criminal justice system that incarcerated them, sometimes by state or local governments through other means, and sometimes the cost of their care is simply absorbed by the public hospital that treats them. Because it is an unfortunate fact that many prisoners today come from segments of the population that had not previously been eligible for health coverage, the problem in the past has perhaps been less obvious and less troubling than it will be after health reform. In the future, however, all prisoners who are legal residents will theoretically have been eligible for coverage prior to their incarceration, and will again become eligible following their discharge. And while safety, security and the needs of the criminal justice system require simplicity in any health system, there is no logic to maintaining prisoners outside the new nationwide system if our goals are universality, cost containment through prevention and earlier treatment, and the broadest possible sharing of risk. While mainstreaming prisoners in alliances and plans may be impractical, clearly the entire system will benefit if targeted plans, perhaps backed by a nationwide risk pool, can be developed for prisoners.

In addition to immigrants and prisoners, NAPH is also concerned about other populations that may fall through the gaps or be unable or unwilling to enroll under health reform even if eligible. These populations include the homeless and the deinstitutionalized mentally ill.

As our experience with Medicaid demonstrates, there may be other significant barriers to enrollment even for many individuals who may otherwise be eligible—especially in inner cities and isolated rural areas. In fact, given the complexity of the system and the need for cost sharing by all but the poorest enrollees, it is virtually guaranteed that many people will simply not sign up for a health plan, even if it is considered mandatory. Rather, they will present themselves to providers in the future as they do today—sick or injured, addicted or mentally ill, homeless, often unable to provide us with basic information about themselves. Our experience also tells us that some inner city residents will actually sign up for multiple plans, either inadvertently or intentionally, or may conceal their previous enrollment in order to obtain care at a more convenient or familiar location. For these reasons, it is therefore imperative that the eligibility process be kept as simple as possible, that the additional costs to providers of treating and enrolling certain populations be taken into account, that providers must be able to rely on the presumptive eligibility of any individual who shows up in their emergency room, that careful outreach and patient education be provided, and that new systems include maximum protections against patient misunderstanding or abuse.

In addition, NAPH applauds the concept of a “risk adjusted” premium for plans to take into account the special needs of individuals with more serious illnesses, injuries, conditions, or personal situations (including income status). However, we are concerned that the development of such an adjustment may be complex and take longer than envisioned, and that many alliances and plans may well become fully operational well before such an adjustment is in place. In addition, we are concerned that the President appears to propose only that a risk adjustment factor be added to plan premiums, with no additional requirements or assurances that “risk-adjusted” payments also be made to those providers who will treat disproportionate numbers of those patients determined to be at risk of greater needs and higher costs.

Also of concern is the possibility of adverse selection and “targeted marketing” by some plans—cream-skimming, if you will—that will leave the sickest and the poorest to enroll in “public plans.” NAPH believes that there must be substantial safeguards, including mandatory open enrollment, limitations on advertising, and mandatory random assignment of “high risk” patients. Both tough rules and strict enforcement—including criminal penalties—must be included.

4. Though adequately comprehensive in most respects, the proposed benefit package will result in many uncovered costs for some urban residents who suffer from alcoholism, drug abuse or mental illness.

NAPH is pleased that the basic benefit package provides an *emphasis on (and in most cases, first dollar coverage for) primary and preventive care*. We also agree that it appears generous and adequate in most cases.

Our two major concerns with the contents of the benefit package are with the proposed limitations on mental health and substance abuse benefits. We are extremely concerned that, while these limitations may make good policy sense for healthy, educated, employed middle class Americans, they fail to address the much greater

needs of many residents of our nation's inner cities. For many individuals, these diseases are primary, not secondary, diagnoses, and substantial barriers to effective functioning. Left untreated, they have substantial implications for the quality of life of all urban residents, significantly increasing (for example) the likelihood of crime and violence in our nation's inner cities.

NAPH is also concerned with reports that some categories among currently eligible Medicaid populations—and especially poor women and children who are eligible for Medicaid but not AFDC or SSI payments—may lose many of the additional benefits they now receive.

5. It is essential that any major shift in the funding of medical education take into account the special needs of safety net hospitals and underserved patients.

NAPH strongly supports the need to develop more rational and broad-based funding mechanisms for medical education, and to shift our emphasis in medical education (as well as in patient care) away from specialization and towards primary care and prevention.

Because most NAPH member hospitals are major teaching hospitals, and rely on their medical education programs for both education and patient care, we have several concerns with certain ambiguities in the President's proposal, as follows:

- Major urban public teaching hospitals must be eligible to be designated academic health science centers or "affiliated hospitals" of such centers.
- With the reduction in specialty residencies, the criteria for allocation of such residencies in the future must include a clear reference to the importance of patient care as well as educational needs.
- In the shift away from specialty residencies, attention must be given to the fact that there are still many parts of the country—such as inner cities and remote rural areas—where there remain severe shortages in many medical specialties.
- Where a residency program encompasses several different and unrelated centers or hospitals, clear criteria must be spelled out for allocating the proposed medical education funding and ensuring an equitable apportionment among all major components of the program.
- The impact of health reform on the training of allied health professionals and on the ability to improve the proportion of minorities in all health professions must also clearly be taken into account in any such sweeping reform of our medical education system.
- The new system must also be carefully phased in over a period of time, and transitional funding must be available to affected hospitals and health centers whose teaching programs will be reduced or changed.

6. Finally, in order to assure adequate access and a careful transition to a new system, some urban and rural safety net providers will require assistance in gaining access to capital to rebuild their infrastructure and develop new networks and plans.

Many supporters of various national health reform proposals have suggested that, if reforms were enacted, there would no longer be a need for an institutional health safety net. We can only note that the same thing was said about the enactment of Medicare and Medicaid. Given the strong likelihood that future changes will continue to be incremental and piecemeal, NAPH believes that there will continue to be a strong need for the public health safety net in our nation's metropolitan areas.

We must thus be extremely careful about dislodging any current institutional funding mechanisms for public health systems in general, and safety net hospitals in particular, unless we are certain that we have a workable and fully implemented system to take their place. Moreover, we must continue to press forward with more targeted programs and reforms that support "stand-by" health and social services and safety net providers.

For example, essential urban and rural safety net hospitals are likely to face a substantial need for assistance under health reform in obtaining adequate capital to rebuild and equip our nation's health infrastructure. A 1993 NAPH study estimates that there are at least \$15 billion in unmet capital needs among these essential urban providers. Yet these hospitals also face significant barriers in obtaining access to capital, as well as in their ability to repay incurred debts entirely from patient care revenues. In order to meet these needs, a new Federal capital financing initiative is clearly needed. NAPH has assisted with the drafting of a major new urban/rural capital financing initiative that was first introduced in 1992, and was reintroduced last year in both the House and the Senate. While its cost to the federal government would be only \$1 billion per year, this bill would create federal-state-local and public-private partnerships to finance up to \$15 billion in capital improvements for safety net hospitals, through loan guarantees, interest rate subsidies

and grants to meet both general and specific safety net capital needs. *We strongly urge that this bill be adopted as a separate new title of any health reform legislation.*

In addition to capital needs, there are other areas in which infrastructure and "enabling services" must be funded to ensure a smooth transition to universal coverage. For example, it is important that funding be made available to improve the ability of urban and rural safety net providers to develop and finance regional provider networks that include a full range of services, including ambulatory and preventive care in addition to acute inpatient care, and to participate as effectively as possible in managed care programs and initiatives. It is also essential that the many health and social programs and services currently provided by public hospitals and public health departments be continued, and that the implementation of health reform not be permitted to diminish or reduce support for these programs and services.

In conclusion, for many reasons, even if national health insurance were adopted this year, America's safety net institutions will need continued support well into the future:

- Any new health reform system is likely to be phased in over a long period of time.
- Even with coverage, many of our current uninsured will be little better off than Medicaid patients, who today find their access restricted in many states to those "open door" hospitals and clinics who will serve them.
- Many of the currently uninsured and underinsured also suffer from a variety of health and social problems very different from those of middle America. Conditions such as AIDS, substance abuse, tuberculosis, and teenage pregnancies are often augmented by homelessness, joblessness, and lack of education. While no health care provider can fully cope with all of these problems, in many areas, our urban safety net hospitals are the only ones even trying to do so today.
- In addition, many safety net hospitals are simply located in the geographic areas where most of our uninsured Americans reside—areas which, even if national health coverage were fully implemented, most other health care providers will continue to be unwilling or unable to serve.
- Finally, with the dramatic cost containment efforts already being imposed by both public and private payers, we must recognize that many expensive and unprofitable community-wide "standby" services (such as burn care, trauma care, and neonatal intensive care) are already under pressure and in danger of being reduced or eliminated in some areas; unless they are taken into account in health reform, the result will be a significant reduction in the security and health status of all of our citizens, not just the uninsured poor.

It is clear that there are many parts of our health system today that are not functioning properly, that need to be restructured or reformed. But it is essential to understand that we have relied heavily for many years on a fragile network of safety net institutions to fill in the huge gaps in our system, and this reliance will continue into the future even as we phase in universal health coverage. In other words, we have a network of unique hospitals in our nation today who have always been ready, willing and able to serve as "providers of last resort"—to keep their doors open and their services accessible to all persons, regardless of race, creed, income, or insurance status. If the federal government generally, and this Committee in particular, are not willing to adequately support the existence of this "provider of last resort" capacity, it is clear that no one else will do so either, and this capacity will disappear.

I would be pleased to answer any questions you may have at this time.

Chairman SABO. Thank you for your testimony.

Your organizations do great work. Hennepin County Medical Center is a great medical center, I am most familiar with, and for years has been one of the premier institutions for training people in the medical profession.

I am sure the rest of you do an equally good job, so we look forward to working with you in the future.

Mr. GAGE. Thank you.

Chairman SABO. Let's hope we can get health care reform passed. Thank you.

Mr. GAGE. Thank you.

[Whereupon, at 2:01 p.m., the committee was adjourned.]

[Additional material submitted for the record follows.]

PREPARED STATEMENT OF HON. MICHAEL D. CRAPO, A REPRESENTATIVE IN CONGRESS
FROM THE STATE OF IDAHO

Thank you, Chairman Sabo, and thank you Ranking Member Kasich, for giving me the opportunity to present testimony on behalf of Budget process reforms needed in the 103rd Congress. It is important to note that I have also presented this testimony to the House Committee on Rules. The nation finds itself saddled with ever more federal debt. If the debt were to be paid off today, some estimate that each person's share would be \$17,000. Addressing this debt, and exploring ways of cutting this debt through budget process reform, has been one of my primary goals as a Member of Congress.

Today, I would like to speak on budget process reforms that are included in two bills which I have sponsored: H.R. 3145, "Make Our Cuts Count" and H.R. 3633, the "Truth in Voting" Act. Both of these bills are currently before the Rules Committee.

MAKE OUR CUTS COUNT

Congress debates on numerous amendments that are designed to reduce spending for specific federal programs or agencies. *Unfortunately, passage of these amendments does not guarantee or mandate real spending cuts.*

To ensure that spending is really reduced, "Make Our Cuts Count" (H.R. 3145) will establish a mechanism that requires a corresponding reduction in the discretionary spending cap and related Appropriations Subcommittees' allocations whenever spending cut amendments are enacted. Under our current budget system, total discretionary spending within the appropriations process is effectively controlled by a statutorily imposed spending caps which the Appropriations Committee allocates among its thirteen subcommittees. In turn, individual appropriations bills must stay within these parameters. However, when floor amendments reduce spending, the discretionary cap and the various subcommittee allocations remain unchanged.

Therefore, although floor amendments to cut programs provide for lively and good rhetoric, they do not guarantee that overall spending will be reduced. Rather, the amount "cut" by virtue of the amendment is still available to be spent on other programs. *The amount supposedly "saved" on the House floor can simply be reallocated by the conference committee for other pet projects.*

We need to begin the process of bringing truth to the budget process and make our cuts count. When Congress votes for cuts they should be just that... cuts! Only by reducing the spending caps and the related subcommittee allocations will we be certain that spending cuts to appropriations bills will ever be realized.

Endorsing this legislation are several national groups including Citizens Against Government Waste, the National Taxpayers Union, Citizens for a Sound Economy, and Americans for Tax Reform. This bill has 94 co-sponsors in the House of Representatives. A companion bill has also been introduced in the Senate by U.S. Senators Paul Coverdell (R-GA) and Dirk Kempthorne (R-ID).

Part of the problem was highlighted in October 1993 by Congressman Jim Ramstad of Minnesota. In arguing for cuts in a specific program, in this case the Advanced Solid Rocket Motor Program, Mr. Ramstad noticed that the funds that were cut from this program were merely transferred into other programs. "These funds should have gone directly into deficit reduction—certainly a greater need than the National Aerospace Plan. But that's a fight for another day."

Another example was highlighted over the battle to cut the Super Conducting Super Collider (SSC). After years of attacks on the program by congressional critics of big-ticket science projects, the projected \$11 billion project was defunded in October 1993. When the House decided by a 140-vote margin to send the bill that funded the SSC back to conference committee with (eventually successful) instructions to strip the SSC funds out of it, the common theme of House Members explaining their vote to stop SSC construction was thrift in government. But as in every case where Congress votes to end a program, the money allocated to the SSC simply reverted back to the budget allocation of the Appropriations Committee.

As mentioned earlier in this testimony, the House and Senate do not save money when they vote against approval of a specific program. What this means is that the whole Congress has no way to cut discretionary spending without the cooperation of the committees that appropriate federal funds. Even when both Houses of Congress vote to defund a program, the committees that control appropriations are free to design new ways to spend the federal money that they control.

After repeated exhortations on the necessity for thrift in an age of deficit financing by, for example, the space station's political opponents, defenders like myself argued that its elimination is not going to give one penny of deficit reduction. The

spending that has already been appropriated would merely be plowed back into other programs.

Make Our Cuts Count is geared toward finally doing what we constantly tell the American people that we're supposedly doing. Many people think that when we vote to make cuts and when we occasionally have a modicum of success, that cuts are actually going to take place. Under present law, these dollars are reallocated. This amendment would ensure that we can actually address the deficit, which the American people want us to do.

When Congress votes to cut federal spending but the Treasury doesn't really save any money, it harms both American taxpayers and representative democracy. Congress should reform spending procedures to make its cuts count. When it votes against federal spending, this should trigger a corresponding reduction in the federal spending ceiling. That way, money would in effect be deposited in the federal treasury for deficit reduction, not just retreat a step back in the spending pipeline. Until Congress changes the way it approves federal spending so cuts can really count, even if rank-and-file Members vote to cut every program in the world, conference committees can simply reallocate the money.

Before the Congress can reform the nation's health care, welfare, and criminal justice systems it must first put its own house in order. Ensuring real spending cuts through Make Our Cuts Count is a necessary first step in this process. Members of Congress must seriously consider listening to their constituents about spending cuts and place good government over the self-interest of specific projects by indicating their support for Make Our Cuts Count.

TRUTH IN VOTING

Make Our Cuts Count is also the first part of my omnibus reform bill, The Truth in Voting Act. This bill includes various other budget process reforms which I feel need mentioning in this debate. For too long Congress has attempted to hide the way it does business through deceptive procedures, manipulating votes and secret meetings. As I have learned more about this process, I'm even more convinced that reform legislation is necessary to correct arcane Congressional procedures, make more meetings open rather than closed and force more votes to be substantive rather than symbolic.

I have introduced a package of legislative measures to address many of those concerns. The American people have not forgotten about the reform promises made by many candidates, and the "Truth in Voting Act" (H.R. 3633) is a good start for those representatives to follow through on those promises.

"Truth In Voting" takes a giant step toward communicating Congress's actions to the public. It will make Congress truly accountable to the people who are crying for disclosure of the public's business.

The congressional budget is out of control and one of the major reasons is the process under which it is considered. Massive deficits will continue until we insist that the Congress follow budgetary procedures that assure openness, accountability and common sense. I have included on my list of Budget reforms that need addressing:

- *Eliminating baseline budgeting.* Congressional budgeting now allows for automatic percentage increases every year. If the proposed budget is below the projected increase, it is called "a reduction in spending."

Any time a spending increase doesn't reach the current services level, it is called a cut. Congress uses such accounting deception to claim to Americans that is cutting a specific program while actually increasing spending on it. Congress and the President must use the spending levels for the current fiscal year (without adjusting for inflation) in the preparation of the budget for each new fiscal year in order to clarify speeding increases from one fiscal year to the next.

- *Requiring the cost (including cost to the federal treasury, state and local governments, and the private sector) to be identified for each bill before it is put to a vote.*

Today, when bills are introduced in Congress, no estimate of costs is required. Thus many legislative measures are submitted without any awareness of the budget impact of full implementation. Legislation also imposes a hidden tax to state and local governments and private industry through mandates, additional compliance costs and over-regulation. This is irresponsible. Members, staff, citizens, and others following the legislative process should have access to the projected costs or tax impact of all legislative proposals. This proposal would require that all measures introduced in the House and Senate include the projected costs or tax impact of the proposal for each of the next five years.

- *Requiring the same cost information to be identified by the executive branch in the rule-making process.*

The idea of calculating cost impact of federal actions should be extended to the federal executive agencies. It was calculated a few years ago that there were over 67,000 pages of federal regulations in the Federal Register. It takes 25,000 federal employees just to issue and enforce them at a cost of between \$9.5 to \$11.2 billion. The total regulatory cost to Americans is estimated to be between \$881 billion and \$1,656 billion annually, or between \$8,388 and \$17,134 per household. These regulations raise the cost of goods and services, reduce wages, increase unemployment and impair our international competitiveness.

The TIV bill states, "Each regulation and proposed regulation promulgated by a Federal Department or executive agency shall be accompanied by an economic and employment impact statement" prepared by that department or agency which promulgated the regulation. This would be waived in times of national emergency such as a declaration of war.

- *Prohibiting procedures under which the debt limit is deemed extended without a vote.*

House Rule XLIX permits continual increases in the federal debt limit without the embarrassment of voting for them. That rule provides that the vote for approval of the budget resolution conference report "shall be deemed to have been a vote in favor of such joint resolution on final passage in the House of Representatives"... which is to say, a procedural vote shall be deemed to be a vote in favor of hiking the debt limit. This permits Members of Congress to cast an up or down vote on yearly federal spending and revenue goals as a whole without touching the tricky question of raising the federal debt. The vote on raising the debt never really takes place; it's only "deemed" to have been made. But since no Representative can be held responsible for a vote he is only deemed to have made, the debt ceiling continues to rise, as though nudged upward by a force beyond human control.

- *Requiring conference committees to stay within the scope and spending limits of the House and Senate bills which are the subject of the conference.*

Congress needs procedural reforms to ensure that conference committees no longer act as shadow legislatures that are free to conjure up legislation that lacked support in either House of Congress. Conference committees should be prevented from inventing wholly new programs or funding programs at higher levels than the House or Senate had previously designated. Reining in conference committees will ensure that when Members of Congress vote, they will be forced to say what they mean and mean what they say.

PREPARED STATEMENT OF HON. RONALD V. DELLUMS, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF CALIFORNIA, AND CHAIRMAN, HOUSE ARMED SERVICES COMMITTEE

The House Budget Committee is charged with proposing how the Congress should allocate resources across the full range of government activities. The Budget committee must carefully weigh all the competing needs of this vast country of ours and reach a complex judgment on resource allocation. This is a daunting task, and one that should humble not only those who must accomplish it but those who offer advice as well.

The views expressed in this statement are the views of this member of Congress, and not those of the House Armed Services Committee. However, as a member and now chairman of that committee, this member has had a profound opportunity to focus closely on the defense budget and on the relation of that budget to our national needs.

The budget committee has heard many voices arguing that defense has borne more than its share of deficit reduction, that the President has already cut defense drastically, and that further cuts would produce a hollow force and endanger national security. In particular, the Defense Department's "Bottom-Up Review" force structure is cited as a minimum level for national security, and any cuts below the President's budget are alleged to endanger the nation's ability to support that force level.

In the view of this gentleman, these arguments are all built on faulty premises. As to defense already having absorbed its fair share of budget cuts, the question is not how much defense has been cut but rather whether we still have more of a budget and force structure than we need to keep the country safe. With the end of the Cold War and the demise of the Soviet military as a global threat, the need for defense forces went down dramatically. Defense is the only major budget function

of which it can be said that objective circumstances have produced a decline in mission. In this time where additional domestic investment and social programs are urgently needed, every penny of unnecessary defense spending must be eliminated and transferred to more productive uses.

There is good reason to believe that defense could be cut further than it has been already. At the end of the current build-down, U.S. defense spending will still equate to 80% of the average purchasing power devoted to defense during the Cold War, excluding periods where we were actually engaged in military hostilities. Needless to say, there is no threat on the horizon any where near 80% as large as that posed by the nuclear-armed Red Army. In fact, the United States military is now larger than that of Russia. Under current plans, the United States will vastly out-spend all of its plausible military antagonists put together. By themselves, our European allies and Japan will spend more than Russia and China.

The Clinton administration, far from cutting too deeply, is actually providing robustly for defense. It plans *increases* in key elements of military capability. By the end of the decade, the U.S. plans to have more early-arriving ground combat capability for regional conflicts than it did at the time of Desert Storm, and an order of magnitude more capability for delivering precision-guided munitions from the air. Just since last year at this time, President Clinton has added over \$24 Billion to its five year defense plan.

The Clinton defense program is only about six percent lower in real program terms than that of the previous administration, and it was common knowledge that the Cheney Pentagon was planning further cuts in defense for a second Bush administration. Our current military is the best trained and most ready in history. Compared to other post-Cold War draw-downs, this one has been shallower and less steep. By reducing force structure and placing a priority on readiness, all indications are that a return to the "hollow force" of the 1970's can be avoided. In fact, current projections show per-unit readiness spending remaining at the high levels reached in the Reagan years.

Finally, the "Bottom-Up Review," as Defense Secretary Perry acknowledged before the Armed Services Committee, is incomplete in some important respects and must be considered to be an evolving document. The force structure levels it recommended it were developed without consideration of major operational changes, further reductions in nuclear forces, or realignments in roles and missions. It pretty much asked what elements of the current force—as built and operated during the Cold War—should be retained if we as a nation wish to build toward a capability to conduct offensive armored warfare in two major regional contingencies at once—without participation by our military allies.

This is a substantially more stringent force planning criterion than was established by the Bush administration. New investment—especially in the area of strategic mobility and other supporting forces—will be required to achieve such a war-fighting capability; we do not have it today.

The Bottom-Up Review also programs additional naval forces for overseas presence—requirements that operational changes might obviate. To keep the Bottom-Up Review force modern will require additional investment after the turn of the century, and so either defense budget increases, further force cuts, or an increased reliance on National Guard and Reserve forces will be required at that time.

The wisdom of building up to meet such a planning criterion is open to question—especially since both General Colin Powell and Defense Secretary Perry have suggested that fighting two wars at once is unlikely in the extreme. Planning to fight two wars at once without our NATO allies is questionable in view of the American public's desire for more multi-lateralism and burden-sharing in national security. In the case of the Korean contingency, economic growth in the South and isolation and adversity in the North suggest that the South will increasingly be able to take up a greater share of the burden of its own defense.

Thus, in brief, our defense effort dominates the world military scene and the Clinton administration plans a ready and robust military force that does not take full advantage of the end of the Cold War, that appears to be in excess of our national needs, and that will require either more spending or further force structure cuts in the future. For the longer term, the Congress needs to investigate alternative approaches to defense planning. Since Fiscal year 1995 is still a year of substantial force reductions in the administration's plan, major force structure decisions will affect later years. At the same time, there remains an urgent need for spending on defense conversion and reinvestment, including Base Closure and Realignment funds, to help communities, individuals, and industries adjust to the decline in defense spending and to become economically productive.

For fiscal year 1995, the administration has increased operations and maintenance spending by 13.5% per active-duty service member, which may be more than

is needed. While the administration has cut procurement substantially, several programs are being continued for industrial base purposes that could be advanced in other, more economical ways. Thus neither the administration's five year plan nor its fiscal year 1995 budget should be taken as a floor for defense spending. At a minimum, defense should not be exempted from the normal nips and tucks that are part of the budget process.

PREPARED STATEMENT OF HON. WILLIAM F. GOODLING, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF PENNSYLVANIA, AND RANKING REPUBLICAN MEMBER OF THE EDUCATION AND LABOR COMMITTEE

Mr. Chairman, as the Ranking Republican of the Education and Labor Committee, and as a former member of the Budget Committee, I appreciate this opportunity to share my views on the budget aspects of the programs within the jurisdiction of the Education and Labor Committee. My comments will provide highlights of my legislative priorities for the fiscal year 1995 (FY95) budget cycle.

ELEMENTARY AND SECONDARY EDUCATION

Mr. Chairman, as you know yesterday we began floor consideration of the Elementary and Secondary Education Act (ESEA) reauthorization legislation (H.R. 6). As it further progresses through Congress, I want to reiterate my support for the Federal, State, and Local Partnership for Educational Improvement (Chapter 2) and Even Start programs.

Chapter 2 is a vital component of Federal education policy because it provides local educators with the flexibility necessary to attempt meaningful reforms designed to improve our nation's schools. I oppose the Administration's recommendation to eliminate Chapter 2 funding. Instead, I recommend increasing funding for Chapter 2 to a level sufficient to allow for consolidation of many of the smaller education programs into the Chapter 2 program.

Even Start, the Federal family literacy program, is the one Federal program that most directly attacks the intergenerational cycle of illiteracy, which is far too prevalent in this country. I support the Administration's FY95 request of \$118 million for Even Start.

Also regarding ESEA, I recommend that funding levels for Chapter 1 Compensatory Education remain at current levels, plus inflation, until we are able to determine whether some real reforms emerge from the rest of the reauthorization process.

In addition to ESEA, I again recommend continuing the effort to close the funding gap in the Individuals with Disabilities Education Act (IDEA) mandate. As of fiscal year 1983, the Federal Government was mandated to contribute 40 percent of the excess cost of educating children with disabilities. The Federal Government currently only provides, and the Administration only requests funding for, 7 percent of the cost necessary to educate disabled children.

FOOD AND NUTRITION PROGRAMS

My objectives for the reauthorization of an array of food and nutrition programs are: streamlined procedures to reduce costs to state and local governments; elimination of the fraud and abuse that threaten the system; and guaranteeing nutritional quality for those served. At a time of limited government resources it is imperative that we stretch those resources to serve the greatest number of people.

Excessive costs associated with burdensome and unnecessary participation and reporting requirements eat up funds that could be serving needy Americans. Unscrupulous individuals and businesses that defraud government are literally taking food out of the mouths of poor children. Finally, food programs that do not provide necessary nutritional content do not help needy Americans do better in school or take proper care of their infants.

I also want to mention two specific areas of the child nutrition programs in which I am particularly interested. They are the Section 4 Payments of the National School Lunch Program and the Cash/CLOC Demonstration Program.

Section 4 grant-in-aid payments provide support to the basic infrastructure of the National School Lunch Program. I support continued funding for Section 4, because current evidence indicates that for every one percent increase in the cost of a school meal, one percent of students drop out of the program. The more students who do not purchase a school lunch, the more costly it is to operate a program to serve the remaining children—which can lead to additional schools dropping out of the school lunch program. When this happens, it is the low income child who suffers. The mid-

dle and upper income child can always purchase a meal elsewhere or bring a meal from home. This is not always true for the free and reduced-price lunch child. By keeping this subsidy available to all children, we ensure that as many schools as possible will remain in the National School Lunch Program and that children receiving free and reduced price meals will not go hungry.

The Cash/CLOC Demonstration Program allows schools to purchase commodities through Commodity Letters of Credit (CLOC). This addresses several problems: the costs of transportation, storage and distribution for school lunch programs and raising the nutritional content of school meals. Schools purchase commodities locally and do not have to maintain a huge storage capacity for commodities which arrive throughout the school year and during the summer when schools are not in session—nor do they have to pay separate processing costs. Schools have greater control over the nutritional content of such commodities and purchase them on an as needed basis (except they have to make such purchases within the time-lines established by the Department of Agriculture in order to remove surplus commodities from the marketplace). This would also be excellent mechanism to raise the number of fresh fruits and vegetables in the school lunch programs, which is being promoted by the Department of Agriculture.

POSTSECONDARY EDUCATION

Regarding postsecondary education programs, I continue to support the elimination of the Pell Grant shortfall and increased funding for the Pell Grant program as I have done under prior Administrations. Increases to Pell Grant funds serve those students most in need and ensure access to postsecondary education for all students.

Another program which I have strongly favored over the years is the College Work-Study Program and I support increased funding for this program.

HUMAN RESOURCES

In the Human Resources area, I would like to make three recommendations. First, I recommend that the funding for the Low Income Home Energy Assistance Program (LIHEAP), that has already been appropriated for FY95, be maintained. This program that directly targets low-income families, including many elderly individuals, is vital to many regions of this country, and because of the severe weather this winter it has become even more important. In fact, the Administration requested in the Earthquake Supplemental bill that LIHEAP emergency funds be released. Yet at the same time the Administration is proposing to cut the already enacted FY95 funding in half. To me that appears to be inconsistent.

Second, I recommend that funding for Head Start be maintained at current levels plus inflation, until we are able to determine whether some real reforms emerge from the reauthorization process. There have been several reports that indicate the lack of effectiveness of this program. Republican Members of the Education and Labor Committee have been advocating ideas to reform Head Start (see H.R. 1528 and H.R. 3798), and many of these ideas have been adopted by the Administration in its reauthorization proposal (see H.R. 3842).

Third, the Administration's budget calls for a 48% increase in budget authority for FY95 for the recently enacted national service initiative. During the legislative consideration of the proposal, the Administration defended the enactment of a major new spending program by asserting that the service program would grow only as its effectiveness was demonstrated. Despite this assertion, the Administration still requests nearly doubling the program even though it is not fully operational as yet. I recommend that funding for national service be maintained at current levels.

Further regarding national service, I recommend applying a needs analysis to the educational awards. In this way limited Federal dollars for this program would go to the students most in need of assistance to attend college. This would not result in a budget savings, but it would result in more money being available for more needy participants in the program.

JOB TRAINING

Mr. Chairman, last year the General Accounting Office (GAO) issued a report that listed 154 separate Federal job training programs. While I do not agree with the GAO that all of the programs listed are truly job training programs, I nonetheless recognize that far too much duplication and fragmentation exists within federal education and training programs designed to serve adults and out-of-school youth. Therefore, I recommend funding for most of the major education and training programs which serve this population (including vocational and adult education pro-

grams, and programs serving disadvantaged youth and adults under JTPA) at approximately the FY 1994 levels.

Yet I also recommend consolidating approximately 80 individual training programs (as listed by the GAO) into 7 broad block grants, consisting of 11 major programs. This consolidation is expected to result in administrative savings over time, and would immediately result in much cleaner and more flexible funding streams going down to the States and local areas for these programs. I also recommend the elimination altogether of several other unnecessary programs listed in the GAO report as job training programs (most of which fall outside the jurisdiction of the Education and Labor Committee) for a total savings of approximately \$1 billion over FY94. These eliminations could be accomplished without adversely affecting our true federal employment and training programs.

In the workforce preparation area, I recommend modest increases for a consolidated dislocated worker program; for the development of occupational skill standards; for the establishment of a school-to-work transition system; and for incentives to States and localities to implement reforms leading to a coordinated system of one-stop-shopping delivery of training services. All of these recommendations fall within our recommendations for a much more efficient and flexible system of workforce development in this Country, and represent significantly smaller increases than proposed by the Administration's budget in this area.

LABOR

Mr. Chairman, with regard to Labor issues I have several recommendations.

The Department of Labor proposes \$36 million to be allocated to increased enforcement. I submit that the Department has adequate enforcement and that the Administration should apply any surplus here to the deficit or to programs to help small employers learn how to comply with these complex laws. For example, OSHA has a consultation program which could be more adequately funded under this approach.

I recommend that the costs of any new Federal mandates on state or local governments must be determined in advance and/or will be applicable only to the extent that the Federal government provides offsetting monies. This recommendation is consistent with legislation that I have sponsored (see H.R. 1295). This is a recommendation that applies to all areas within the jurisdiction of the Education and Labor Committee, and to all issues before Congress for that matter.

I recommend amending the Federal Employees' Compensation Act (FECA) to prohibit individuals from receiving FECA benefits if they have been convicted of FECA fraud. This would result in a savings of \$22.6 million over five years. (See H.R. 3491.)

I recommend repealing the Davis-Bacon Act and exempting federal construction projects from the reporting requirements of the Copeland Act. This would result in a savings of approximately \$3.3 billion over five years. At a minimum, the threshold for coverage under the Davis-Bacon Act should be raised and the reporting requirements under the Copeland Act should be reduced.

I recommend amending the Service Contract Act to eliminate the successorship provision, thereby permitting successor contractors to pay lower wage rates or to provide less costly fringe benefits than those provided by their predecessors. This would result in a savings of \$900 million over five years. Furthermore, repealing the Service Contract Act would result in more significant savings.

Mr. Chairman, the National Institute for Occupational Safety and Health (NIOSH) was established in order to be the research arm for occupational health and safety issues. While some of its activities are focused on research, much of its work in recent years has been focused on making recommendations for regulatory action by MSHA, OSHA, and other agencies. This leads to a confusing situation—one government agency, which does not have responsibility for action, telling another agency, which does have that responsibility, what to do. I recommend eliminating NIOSH, saving \$133 million from the Administration's budget.

The National Performance Review (NPR) recommended that OSHA establish a program using what it termed "market mechanisms" to improve safety and health, and specifically recommended the use of incentives to encourage employers to utilize third party auditors to review the workplace. This proposal is similar to proposals for changing the OSHA program contained in legislation proposed by Education and Labor Republicans (see H.R. 2937). It is not a budget savings, but it would allow for better utilization of government resources, and thus alleviate the need for any "army of OSHA inspectors to descend on American employers."

I recommend allowing voluntary electronic filing of ERISA Annual Financial Reports (Forms 5500), and further consideration of how to increase the percentage of

reports filed electronically. This is a desirable method of significantly reducing the cost of processing (cost shared by DOL and the IRS) and reducing the 3-year delay it takes to obtain information from an annual filing.

I recommend amending the ERISA requirement for the filing of summary plan descriptions by employee benefit plan administrators with the DOL. Since the summary plan descriptions are actually filed for only a small percentage of plans, the cost to maintain the system and the administrative burden on employers far outweigh its public benefit. The NPR suggest that this program change would save approximately \$600,000 in fiscal years over a 5-year period.

I recommend amending and enhancing the Department of Labor's Return-to-Work program which assists occupationally disabled federal workers return to work. By overhauling the program substantial savings could be gained by reducing long-term benefit costs to the government. The NPR estimates that the change would result in approximately \$125.7 million in savings over a 5-year period.

Finally, I recommend that Pension Benefit Guaranty Corporation (PBGC) reform legislation be enacted this Congress in order to prevent the occurrence of substantial long-term costs and the insolvency of the pension plan termination insurance programs administered by the PBGC.

CONCLUSION

Mr. Chairman, I appreciate the opportunity to share these comments with you and the rest of the House Budget Committee, and I encourage you to take them into consideration as you develop the Budget Resolution for FY95.

PREPARED STATEMENT OF HON. NITA M. LOWEY, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF NEW YORK

I want to thank the Chairman of the committee, Mr. Sabo, and the ranking member, Mr. Kasich, for allowing me this opportunity to present testimony to the committee regarding the fiscal year 1995 budget.

As a member of the Appropriations Committee, I am aware of the formidable task this panel faces in setting our basic spending priorities. As you well know, the Federal budget is a telling portrait of our national priorities. In 1993, thanks in part to the leadership of this committee, we succeeded in shifting Federal spending priorities toward investments in infrastructure, research and development, job training, and public health that will make our Nation stronger and more competitive.

In order to make room for these kinds of investments, we reduced spending in non-essential areas. The Appropriations Committee achieved over \$34 billion in cuts in its 13 fiscal year 1994 appropriations bills. In addition, last August Congress approved a five-year budget reconciliation bill that provides \$496 billion in deficit-reduction.

This year, we must build on that promising record by continuing to channel our resources toward programs that advance our Nation's most important goals. The President's FY 1995 budget, in general, makes important new progress toward increasing public investment in our Nation's economic potential and in the security of our people, while maintaining budget discipline.

I urge the committee to follow through on the President's proposed investments in areas such as crime control and prevention, job training, education, energy conservation, small business assistance, biomedical research, nutrition, and substance abuse treatment. I would like to focus my remarks on several areas where, I believe, the committee should depart from the President's proposal.

REPEAL THE TAX INCREASE ON SOCIAL SECURITY BENEFITS

The deficit-reduction achieved by last year's budget reconciliation bill has been crucial to ensuring the continued strong performance of the economy. Recent reports on the economy confirm that our efforts to bring down the deficits have yielded tangible economic benefits in the form of lower interest rates, improved productivity, and increased economic growth.

Despite these positive indicators, I continue to be concerned about the negative impact of the budget reconciliation bill on the financial outlook of many seniors. The budget reconciliation bill contained provisions to increase taxes on Social Security benefits received by married couples earning over \$44,000 and single individuals with income above \$34,000.

Mr. Chairman, couples and individuals in these income brackets can hardly be considered wealthy if they live in high cost-of-living areas like New York. Seniors

should not have to bear this disproportionate burden. Last year, Congressman Nadler and I introduced legislation (H.R. 2987) to repeal the tax increase on Social Security benefits that was enacted as part of the 1993 budget reconciliation measure. Our bill contains budget cuts that would more than offset the revenue lost by repealing this tax increase. The cuts we proposed include: terminating the space station; extending procurement schedule for the F-22 aircraft; terminating the D-5 sea-launched ballistic missile program and reducing the number of strategic submarines; delaying procurement of the tri-service stand-off attack missile; increasing fees for grazing on public lands; charging royalties for hard rock mining; and, eliminating below-cost timber sales by the Department of Agriculture.

I urge you to consider these and other spending reductions so that we can repeal the increased taxes on Social Security benefits and restore a measure of tax fairness to our seniors.

RESTORE LIHEAP CUT

The President has clearly demonstrated his interest in taking decisive action to make work pay for low-income populations. Last year he proposed, and Congress passed, an historic increase in the income tax credit that will raise millions of working-poor families out of poverty. In addition, the President set the stage for dramatic action on welfare reform, by appointing a task force and placing the issue at the top of the administration's agenda.

I am hopeful that the administration and Congress can work together expeditiously to enact landmark changes that will change the meaning of welfare from cash assistance to work promotion. It is essential, however, that we maintain strong support for programs, such as the Low-Income Home Energy Assistance Program (LIHEAP), that help families maintain their self-sufficiency and stay off welfare. I urge this committee to restore the cut proposed by the administration and provide, at the very least, level funding for LIHEAP.

LIHEAP helps the working poor and the elderly meet the cost of heating their homes. By helping families get through the winter, we reward work and encourage the working poor to stay off welfare. State officials contend that this program pays for itself in the long run in reduced welfare enrollments. As we move forward with efforts to reduce welfare dependency, we must ensure continued support for programs like LIHEAP which help reduce the need for welfare.

MASS TRANSIT FUNDING

Finally, I want to express concern about proposed reductions in Section 9 mass transit operating funds. The administration has proposed reducing operating funds from \$802.3 million to \$600 million.

The New York Metropolitan Transportation Authority (MTA) serves 12 counties in the New York metropolitan region and is the Nation's largest mass transit system, carrying 5.3 million passengers a day; this is more than 20% of the Nation's mass transit passengers. The President's budget would result in a \$23 million reduction in operating subsidies for the MTA, a 25% reduction in Federal operating assistance.

Cuts in Federal operating assistance could force the MTA either to make serious cutbacks in service, or raise the current bus and subway fare substantially. But in addition to seriously reducing ridership, higher fares and reduced service could also impede the metropolitan region's economic recovery. More than half of all employed New Yorkers use public transit, and the New York region's mass transit network is consistently cited by businesses as a major reason to invest and create jobs in the metropolitan area. Additionally, the proposed cut places increased burdens on communities striving to meet Clear Air Act goals by reducing traffic congestion and improving air quality.

I am pleased that the budget recognizes the need for increased investment in infrastructure by proposing a significant increase in capital funding. But we cannot rob Peter to pay Paul: increased capital funding and continued support of transit operating assistance are critical to the future of the New York region's mass transportation system.

I want to thank the committee for this opportunity to express my views on several priority issues that face this committee as it drafts the budget resolution for fiscal year 1995. I look forward to working with the leadership and the members of this committee throughout the process to enact budget and appropriations measures that address our Nation's most pressing needs in a fiscally responsible manner.

PREPARED STATEMENT OF HON. GERALD B. SOLOMON, A REPRESENTATIVE IN
CONGRESS FROM THE STATE OF NEW YORK

Mr. Chairman: As the Budget Committee hears testimony this morning, the Senate is engaged in a vigorous debate over the Balanced Budget Amendment, testing whether Congress has the political will to place procedural restraints on its spending power. Most Members, whether they support or oppose a balanced budget amendment, agree that the federal budget deficit is a problem. This is clearly demonstrated by the "purpose" of many of the federal budgets passed over the past decade—they all claimed to be deficit reduction packages. However, implicit in this recognition of a deficit problem must be a recognition of a deeper impending crisis, the burden of the federal debt on our economy.

I, along with my constituents, are concerned with our nation's \$4.3 trillion debt. It has been estimated that every new child born in America now inherits \$17,000 in public debt. Each year that Congress and the President allow yearly deficits, this unfortunate inheritance increases. In light of this lien on the future income of Americans, I must ask how the President's fiscal 1995 budget deals with this crisis. As I understand it, the President's budget does not substantially address the federal debt. In fact, by its own estimates it allows the debt to increase by \$1.2 trillion over the next five years; a more extensive analysis of his plan shows an actual increase of \$1.6 trillion. Furthermore, according to the Congressional Budget Office, total deficit projections over the next five years will exceed \$900 billion under the current budget trend. In what direction is the President's fiscal '95 budget taking us—toward fiscal solvency or collapse?

It is greatly disturbing to hear recent statements of Administration officials claiming that the passage of the President's deficit reduction package last year has solved the deficit crisis. Some Members of Congress have even espoused this belief, as if yearly deficits in excess of \$100 and \$200 billion are inconsequential. Further, claims that the recent positive economic news proves that the economy is on the road to recovery and therefore deficit reduction is no longer a critical priority are completely misguided. In the Administration's zeal to reform our health care system it claims that escalating federal health care costs are responsible for the increasing deficits in the latter years of this decade. While this may be true and the intent to prevent this deficit rise may be laudable, it neglects any measures to reduce or, even more importantly, to eliminate the existing deficit. For too long, budget policy has been premised on an out-year perspective. The President's health care reform follows this thread of budget history. It is time for Congress to develop an in-year policy. Addressing current year deficits substantially yet responsibly should be a priority in the President's budget. Evidence shows the President's budget priorities are elsewhere.

Earlier this year, the president's Council of Economic Advisors told the Senate Budget Committee that a deficit considerably less than 3 percent of the GDP should be maintained for a healthy economy. What about the debt? Will we still have a Healthy economy when the payments for the interest on the debt alone equal 3 percent of the GDP? This will be the inevitable result of a budget process that allows the continuous existence of deficits and no provisions for debt reduction. This year's budget must go further. As Ed Rubenstein, an economist for *National Review*, writes "debt cannot grow faster than GDP without creating financial instability. Eventually investors demand exorbitantly high interest rates, or cease buying federal debt entirely, reflecting doubts about the government's ability to raise sufficient revenues to pay interest." If GDP growth lags debt growth, the nation is in a dangerous debt trap.

Just this week, my New York colleague Senator Daniel Patrick Moynihan stated that because the deficit in proportion to the gross domestic product is clearly and gradually declining and should settle at 2.4 percent by fiscal 1996, "We have the budget under control." How? It is an indisputable fact that while the federal government continues to run yearly deficits the budget is not under control. Every year in which there exists a deficit there will always be an increase in the federal debt. An ever increasing debt is not a characteristic of a budget under control.

The Congressional Budget Office claims that the two largest obstacles to improvements in America's standard of living are the deficit and low levels of private savings. CBO goes on to further state that if deficits are not offset by increased private savings they will continue to be a drag on economic growth. This budget continues the Administration's emphasis on the success of last year's deficit reduction package by only decreasing spending by \$10.5 billion according to the Administration's own estimates. Even if there were not any spending increases in the budget, and there are over \$45 billion of them, a decrease of only \$10 billion in a \$1.5 trillion fiscal

1995 budget will not lead to substantive deficit reduction and hence not result in the improvement of America's standard of living.

In summary, the President's budget does not eliminate the deficit, does not even address the debt and does not pave the way for fundamental improvements in the standard of living of our nation's citizens. In light of these serious shortcomings, I must ask whether this budget espouses the proper prescription for the ailment afflicting every business, family and, yes, every program of the federal government. Clearly, the answer must be no. Congress can do better.

In order to avoid criticism for opposing the President's approach solely in my rhetoric, let me oppose the Administration in substance. Instead of the path chosen by the President, I would propose a budget package founded on two precepts. One, government spending is too high and too frivolous. Consequently, the vehicle for long term deficit elimination and fundamental reform in budget policy rests in cutting federal spending. Secondly, the real threat to the future financial security of our nation's families is the federal debt and not the deficit. Therefore, eliminating the federal deficit as quickly and as palatably as possible is the best mechanism for reaching the heart of our fiscal crisis.

Yearly payments for interest on the debt presently cost every taxpayer in this country \$1,000 a year in taxes. The taxpayer burden of the debt principle itself is too vast and too frightening to quantify individually. The nation must choose between two options: shoulder a rapidly increasing debt burden or shoulder responsible government sacrifices, known not as tax increases but as government spending cuts. There are only two choices. The sad reality is that the President chose to carry the debt.

PREPARED STATEMENT OF HON. BART STUPAK, A REPRESENTATIVE IN CONGRESS
FROM THE STATE OF MICHIGAN

Dear Mr. Chairman: Thank you for providing Members with the opportunity to testify before your committee today. I am here to express my belief in the Byrne Formula Grant program and argue for its reinstatement for full-funding in the FY 1995 budget.

I must tell you that the news of the proposed rescission of the Byrne Formula Grant program has been met with great disbelief by many Members of Congress as well as by state and local law enforcement officials. I am dismayed that I have to be here today to plead for the restoration of these much needed funds when there is already an insufficient amount of financial support to wage the drug war effectively.

Before the availability of formula grant funds, drug efforts in Michigan were accomplished by the state police and large urban law enforcement departments. Five state troopers covered drug investigations in 40 counties in Northern Michigan including the Upper Peninsula. Since these formula grant funds became available, however, seven drug teams have been created in that region and arrests have increased 400 percent. Furthermore, Federal funds expanded 12 existing drug teams, adding medium-sized cities and rural counties to their cooperative effort. One hundred twenty-three multijurisdictional drug team officers including eighty-two local and forty-one state police, as well as twenty-nine prosecutors are funded by formula grant funds.

Implementation and expansion of these regional, state and local drug teams brought with it cooperation, coordination, and collaborative efforts. These drug teams work directly with Federal enforcement agencies such as the DEA, FBI, ATF, and Customs. The drug teams meet with education and treatment officials to discuss drug trends and work with community leaders to best serve the regional area they represent. By pooling the resources of a number of counties into one coordinated, cooperative effort, the medium sized and rural regions of Michigan have been able to receive the type of specialized narcotics enforcement they need. It is important to understand that the supply side of the drug war must be won at both our Nation's ports-of-entry and in rural America where land is plentiful and population is sparse.

Equally important, the assets of drug dealers that are seized by these multijurisdictional drug teams is used to match the federal share. *In Michigan this is a 50 percent match.* In other words, the Byrne program allows the state of Michigan to decrease the burden on the Federal government by indirectly providing the match money. This revenue will be lost with the elimination of funding for the drug teams.

Mr. Chairman, as we all know, mid to upper level drug traffickers have become increasingly sophisticated in their "business" operations. They invest large sums of money to avoid detection and arrest. For success against these major traffickers,

and there has been a great deal of success, it is essential that highly trained, experienced, and dedicated prosecuting attorneys be available to defend against the myriad of pre-trial motions and, ultimately, a trial. The ability to keep such prosecutors on staff will be totally lost if the Byrne Formula Grant is eliminated. If this grant program is eliminated, the scales of justice in Michigan will tip heavily toward the drug dealer.

The new national strategy identified by the Administration which is aimed at placing officers in selected urban neighborhoods and emphasizes treatment, at the expense of the Byrne Formula, eliminates a major tool for state and local law enforcement. At a recent hearing before the Government Operations' Subcommittee on Information, Justice, Transportation, and Agriculture, of which I am a member, local law enforcement officials uniformly testified in support of this fact. They said, down the line, that given a choice between a few more cops on the beat and their multijurisdictional task forces, they would choose the task forces. They identified these task forces, funded by the Byrne Formula Grant, as one of the few successful tools they possess in the war against drugs. To believe that treatment and community policing alone can reclaim our drug infested neighborhoods is a mistake. Without the ability to impact supply reduction with multijurisdictional drug teams, community policing strategies will not keep drugs off the street.

Michigan's current strategy and use of the Byrne formula funds are providing significant results. Multijurisdictional drug teams increased arrests by 31 percent last year. This includes an 85 percent increase in arrests of drug "kingpins" and a 29 percent increase in drug seizures. In Michigan under "Byrne," 97 percent of drug offenders were convicted of the most serious charge against them and three-fourths were convicted of all charges filed against them. These are numbers that cannot be argued with.

Perhaps the most significant aspect of the Byrne Formula Grant Program is that each state can decide how best to use these funds based on where Federal monies for law enforcement are most needed. Each year, Michigan holds several hearings across the state to determine how the formula grant funds should be spent. Over 2200 government officials are invited to provide testimony at these hearings. Based on this testimony and community input, a statewide comprehensive drug enforcement strategy is enacted which reflects the needs of communities over the entire state.

An area of great need in my state of Michigan has been the Upper Peninsula, which I represent. The emergence of a new and extremely dangerous drug called methcathinone, or CAT, has shattered the theory that rural America is drug free. A grant funded drug team, UPSET, became aware of street sales of CAT in 1991. This was the first seizure of CAT by law enforcement in the United States. The drug is highly addictive and produces a significant "high." Methcathinone is packaged and marketed in a manner similar to that of cocaine. The materials and chemicals necessary to produce CAT are easy to obtain and the manufacturing process is simple. As a result of the existing danger, a special CAT drug team was funded in 1993 to work with the UPSET drug team. Due to the enforcement efforts of both federally funded teams, proliferation of CAT has been reduced.

CAT is spreading to other states. Wisconsin reports that CAT is being seized and there are indications it is in Minnesota, Missouri, Texas, Indiana, Illinois, Ohio, Iowa and Colorado. Intelligence indicates that the number of labs is increasing quickly as the manufacturing knowledge is passed from person to person.

The Upper Peninsula is remote rural America with only 3% of the state's population. It seems the least likely place for the introduction into the United States of such a drug. Due to grant funds, there was a drug team in place to respond quickly after detection. Without this drug team, CAT may have spread more quickly, perhaps to every state in the nation. Lack of grant funding will seriously jeopardize our ability to "hold the line." Community policing funds will not reach the Upper Peninsula and would not have kept CAT from rapidly spreading.

The Michigan Office of Drug Control Policy has developed a comprehensive balanced plan for Michigan's grant funds which channels more money to the local level. The proportion of Michigan's federal funds directed to local prosecution, street level enforcement and cops on the beat has increased 31 percent. Funding helps to provide for 29 local prosecuting attorneys and 75 officers to aid in street level and neighborhood initiatives. Crime labs, narcotic officer training and a statewide intelligence system are funded. The share going to the courts has nearly tripled, and that going to treat drug offenders has increased by almost one third.

On the average, states allocated two-thirds of these funds to local governments. Michigan exceeds their required pass-through amount by nearly \$3 million.

Michigan received from the Federal government in 1993, \$7 million for treatment programs, \$17 million for drug education and \$14 million for drug enforcement.

State and local drug enforcement dollars are already the smallest of the three funding sources used in combating the drug problem. To completely eliminate financial support for comprehensive enforcement activities which have demonstrated their effectiveness is a serious blow to law enforcement and all communities in Michigan.

We need a balanced approach to drugs and crime that is tough and smart. Arresting drug offenders alone does not solve the drug and violent crime problem. More cops walking a beat in urban cities will not alone solve the problem. Both programs are needed as well as prosecutors, drug courts, treatment and education.

Drug enforcement initiatives must have financial stability. Effective narcotic efforts are hindered due to the uncertainty of continued funding. The real drug war and the brunt of its destructiveness are at the state and local level which is where the dealers, the users, the crime and the violence are found.

We must not only keep, but should seriously consider an increase in the level of state and local law enforcement assistance. Funding for the Byrne Formula Grant Program, at its best was 473 million dollars. Funding for LEAA, at its best, was 732 million dollars. That was 20 years ago. Seven hundred thirty-two million dollars today translates to about 2.5 billion dollars. Twenty years ago there was not a significant drug problem. Today drugs and violent crime are the two top problems facing America.

I, therefore, ask that the proposal to eliminate the funding be reassessed. To do otherwise would put at great risk the gains made in the nation with the Byrne Formula Grant funds.

PREPARED STATEMENT OF R. JANE BROWN, COMMISSIONER, MINNESOTA DEPARTMENT OF JOBS AND TRAINING, COMMUNITY BASED SERVICES DIVISION

The Low Income Home Energy Assistance Program is vitally important in Minnesota. We are the third coldest state in the nation, with close to 9000 heating degree days, exceeded only by Alaska and North Dakota in the need for home heating. Our population of 4.3 million includes many vulnerable households.

This year, our state LIHEAP grant is approximately \$55 million. Ten years ago, our grant was almost double that amount. The need for this program has not been cut in half. Home heating is still costly in Minnesota and the number of families who need help with high energy costs remains high. In fiscal year 1993, we served 109,412 households, and according to census data, over 266,000 Minnesota households were eligible.

Over one third of our households are disabled or senior citizens, and another one third have small children. These households are most vulnerable to heating crises. Close to 40% of our families are working poor, struggling to make ends meet with low wages. Reductions in funding would likely eliminate this group from our program.

LIHEAP benefits are based on a percentage of the previous year's heating costs, with the lowest income households receiving the highest percentage. Energy Assistance is a one time grant, and each household always has a responsibility to pay the greatest portion of its heating bill.

Major cuts in LIHEAP will have a devastating impact on Minnesota low income families. The purchase of energy to stay warm can cost these families between 12% and 25% of their total household income, compared to 5% of a middle-income family's total income. Without energy assistance, their lives could rapidly unravel.

Reducing LIHEAP will not save dollars. It will merely shift costs to other programs. Children living in insufficiently heated homes will require more medical care, do poorly in school and have increased absenteeism, thereby increasing the costs for health care and education. Senior citizens may find it impossible to maintain their own homes, and may require nursing homes. Working families, striving for self-sufficiency, could upset the delicate balance in their lives and court homelessness, increasing the burden of all levels of government. Without sufficient heat, low income households face multiple problems—pipes freeze, housing deteriorates, children fail to thrive and the hard-earned quality of life of our oldest citizens is seriously jeopardized.

Our economy is expanding and growing, and yet many families, in Minnesota and nationwide, are still living on the edge of poverty. Now is not the time for drastic reductions in LIHEAP.

PREPARED STATEMENT OF THE DEFENSE BUDGET PROJECT

Overall, the Administrations latest defense plans and budget projections represent something of a mixed bag. The FY 1995 defense budget request deserves relatively

high marks. It strikes a reasonable balance between competing priorities within the Defense Department at a time when the resources available for defense have become very tight. Importantly, the request protects funding for research and development (R&D) and operations and maintenance (O&M), the accounts most critical to preserving, respectively, the U.S. military's long-term technological edge and its readiness to fight effectively in the near term. Unfortunately, the Administration's FY 1996-FY 1999 plans are less reassuring. The Administration itself acknowledges that, due to higher inflation projections, the Future Years Defense Program (FYDP) is underfunded by some \$20 billion over this period. The actual level of underfunding appears to be closer to \$30 billion, and could be significantly more. But the most troubling aspect of the Administration's plan is its strategic underpinning, or, more precisely, the lack thereof.

The "Bottom-Up Review" (BUR), initiated by the Administration in March 1993, was intended to be "a comprehensive review of the nation's defense strategy, force structure, modernization, infrastructure, and foundations." According to the Administration, the BUR provides the United States with a blueprint for transitioning from a defense posture designed primarily to counter a Soviet threat to one oriented toward the challenges of the emerging post-Cold War security environment. Unfortunately, the BUR fails to make a persuasive case for its recommended defense posture. Moreover, not only is its recommended defense posture likely to prove unaffordable over the next five years, it is likely to become progressively less affordable over the longer term, in the years beyond FY 1999.

In considering the FY 1995 defense budget request, it is critical that Congress take the time necessary to evaluate the results of the BUR, and compare them to possible alternative plans. Perhaps the Administration can present a better case for the BUR than it has to date. If it can, it should also be required to specify how that program is to be fully funded, not only this year, but over the longer term. On the other hand, if the Administration fails to make a more effective case for the BUR program, Congress should consider adopting a force structure and defense program that can more readily fit within the budgets currently projected for defense. There is good reason to believe that, within currently projected budgets, the Defense Department can best minimize the overall risks to U.S. national security interests by adopting a smaller force structure than called for in the BUR.

THE FY 1995 DEFENSE BUDGET REQUEST

The Administration made to make some tough decisions in shaping its FY 1995 defense budget submission. On the whole, the decisions it made appear to have been good ones. The Administration's request places a high priority on protecting the combat readiness of U.S. forces. Under its plan, funding for O&M would grow to \$92.9 billion in FY 1995, an increase of 3.7 percent in real (inflation adjusted) terms from FY 1994. At the same time, the number of active duty troops is projected to fall by 5 percent. Even after adjusting for the effect of non-traditional programs (e.g., environmental cleanup and peacekeeping) funded through the O&M account, this increase appears to be significant and should alleviate some concerns that the readiness of the U.S. military may be faltering.

The Administration's request also includes \$36.2 billion for R&D in FY 1995, a 1.4 percent real increase from FY 1994. The Administration's FY 1995 request suggests that, notwithstanding last year's Congressionally-imposed cuts to this account, the Administration continues to place a high priority on R&D. Moreover, the proposed budget would increase funding for basic research and exploratory development—the earliest stages of the R&D process, which are critical to maintaining U.S. technological superiority over the long term—by almost 4 percent in real terms.

The Administration's FY 1995 budget continues to make deep reductions in military personnel. Under the plan, active duty personnel levels will be cut from about 1.61 million at the end of FY 1994 to about 1.53 million by the end of FY 1995. Given the disappearance of the Soviet threat and the lack of any near-term threat of comparable magnitude, these deep force structure reductions make sense. Lastly, the Administration's decision to cut procurement funding to \$43.3 billion, a real decline of 5.4 percent, seems appropriate. This cut—which is modest by comparison to recent years—and testimony by Secretary of Defense William Perry suggest that cuts in funding for procurement have bottomed out.

THE FUTURE YEARS DEFENSE PLAN

The Administration's approach to the remainder of the FYDP is more troublesome. There are a number of areas in which the FYDP is or may be underfunded. The Administration concedes that unless future inflation rates decline below currently projected levels, the FYDP will fall \$20 billion short of what is required to

support the BUR. But this may be just the tip of the iceberg. The overall federal budget proposed by the President includes \$11 billion in unidentified savings from "reinventing federal procurement." Since the Defense Department accounts for about 70 percent of total federal procurement, this suggests that DoD will be required to absorb reductions of another \$8 billion or so through FY 1999. Another \$14 billion would be required over the next five years if Congress were to decide to provide military pay raises as mandated by current law (half a percent below the employment cost index—ECI), as it did in FY 1994, rather than accept the Administration's proposal for smaller pay increases.¹ Additionally, there are reports that the services' budgets may be underfunded. For example, Admiral Kelso, the Chief of Naval Operations, stated in January that the Navy would have to find an additional \$3.5 billion a year for aircraft and ship construction "in the years ahead."² How much the FYDP is underfunded is unclear. But whether the shortfall is \$20 billion or \$60 billion, it is cause for serious concern.

ASSESSING THE BOTTOM-UP REVIEW

Secretary Perry urged the Congress not to view the FY 1995 budget, or the FYDP, as merely fiscal documents. Rather, he argued, they should be evaluated as a "strategic investment" plan whose priorities are derived from the Pentagon's Bottom-Up Review. If adopted, the BUR's defense program will exert a profound influence on the long-term security of the United States, not only over the next five years, but over the next 15-20 years. The BUR is intended to break the Defense Department from its Cold War era focus on what was a relatively clear and predictable Soviet threat, and to reorient the U.S. defense posture on a new set of challenges. These challenges, or dangers, are those posed by aggression by major regional powers, or ethnic and religious conflict; the spread of nuclear, chemical, and biological weapons; the failure of the former Soviet states—especially Russia—to transition successfully to democracy; and the failure to build a "strong and growing U.S. economy." In reality, however, the BUR falls far short of meeting these challenges. It appears largely to ignore some critical new challenges, while over-preparing to meet some old and less worrisome dangers.³

Specifically, the BUR offers a defense program that:

- Allocates primary emphasis to maintaining U.S. military capability over the near-term future, at the expense of preserving U.S. military potential over the long-term. Essentially, the BUR maintains the U.S. planning perspective that existed during the Cold War: it focuses on the near-term future, and on the most *familiar* threats, as opposed to the *greatest* or *most likely* threats to the national security, which will probably appear in the next decade, at the earliest.
- Advocates dedicating the bulk of U.S. defense resources to meeting the requirement to wage *two* nearly simultaneous major regional conflicts (MRCs)—without allied support if need be—to quick and decisive victories. The BUR does not provide a convincing argument for this planning requirement, especially when the opportunity costs are considered.
- Emphasizes planning to refight the Gulf War more effectively rather than preparing for the challenges of the next decade. For example, Third World regional powers with aggressive designs are likely to adopt substantially different operational concepts and force structures than those anticipated by the BUR in designing its force requirements for future MRCs.
- Fails to set priorities between preparing for major regional conflicts, and preparing for unconventional operations, such as peacemaking. Furthermore, the BUR appears to assume that forces trained and oriented for conventional conflict environments can be readily shifted to unconventional operations with little or no loss of military effectiveness. The U.S. military's experience over the past century would seem to indicate this assumption is unfounded.
- Fails to make a convincing case for its recommended twelve-carrier Navy. The U.S. experience in the Cold War, in the Gulf War, the dramatic changes that have occurred in military capabilities, and even Defense Department-sponsored studies do not sustain the BUR recommendation.
- Fails to take into sufficient account the potentially profound influence that an emerging military revolution could have on the determinants of military effectiveness, and the parameters for an effective defense investment strategy.

¹ Testimony of John J. Hamre, DoD Comptroller, before the House Defense Appropriations Subcommittee, February 24, 1994.

² John D. Morrocco, "Navy Seeks Savings to Sustain Forces," *Aviation Week & Space Technology*, January 24, 1994, p. 42. It is, however, unclear whether the shortfall described by Admiral Kelso was based on requirements through FY 1999, or over the longer term.

³ See Andrew Krepinevich, *The Bottom-Up Review: An Assessment* (Washington, D.C.: Defense Budget Project, February 1994).

- Is, finally, critically handicapped by the Administration's failure thus far to enunciate a clear national security strategy that defines the American military's role in the post-Cold War era.

Indeed, the Clinton Administration has yet to define with clarity America's role in the newly emerging international system. Does the administration see the United States in the role of World Policeman, maintaining global stability by deterring—or, if need be, waging—regional wars while engaging in an array of so-called peace operations? Or will the United States be the World's Fireman, appearing on the scene only when things get so out of hand that American security is directly threatened? Or will U.S. forces support an American security posture as the World's Good Samaritan, engaging principally in peace operations and eschewing involvement in regional wars that could involve states possessing weapons of mass destruction? Or will America adopt a neo-isolationist posture that makes it, in effect, the World's Recluse? Clearly, each role requires a substantially different defense posture, and corresponding level of expenditures.

What challenges (or dangers) should claim top priority? At present, the Defense Department appears to be placing the greatest emphasis on meeting the two-MRC contingency requirement. Considering the geopolitical revolution and the military revolution now under way, there are several other elements that might be accorded greater emphasis than is evident in the BUR:

- The Defense Department should consider how its defense program might contribute to forestalling the danger of a resurrection of the great power rivalry that has characterized the modern historical epoch. This would likely involve giving higher priority to preserving the long-term military *potential* of U.S. forces, as opposed to near-term *capabilities*. This implies placing greater emphasis on those things, like research and development (R&D), operational and organizational experimentation and innovation, and selective modernization, that will best preserve U.S. military potential. It also implies giving relatively less priority to preserving force structure.
- Another candidate for high priority status would be shaping the U.S. defense budget and forces to respond to the threat of weapons of mass destruction (WMD) proliferation, and advanced military technology diffusion. Greater emphasis might be placed on identifying ways to dissuade, discourage, deter, or defend against hostile regimes or organizations that intend to acquire, or who do acquire, WMD or advanced conventional systems. A major component of this effort will involve encouraging innovation and experimentation among the military services, and within the DoD as a whole.
- The most likely challenges to U.S. security could be accorded higher priority. The DoD needs to resolve the competition between MRC and peace operation requirements. As seen by the recent events in places like Somalia and Bosnia, so-called peace operations require significantly different kinds of strategy, doctrine, force structure, equipment, and training than do the major regional contingencies. The BUR admits that it cannot provide forces for "sizable peace enforcement or intervention operations" and also meet its two-MRC requirement. In cases where priorities compete, the Administration should decide which will take precedence.
- Consideration should also be given to restructuring the defense budget's organization to reflect contemporary needs. Today the DoD budget remains oriented primarily around those forces and missions that were instituted over thirty years ago. New mission areas—such as counterproliferation, for example—have no specific budget lines. While some adjustments have been made over time, it would seem that a major review of the budget structure itself is in order.

If the United States' defense program is to be oriented on meeting the greatest and most likely challenges to its security, something will have to give. Some additional risks to national security will have to be accepted in some areas to minimize potentially far greater risks in other areas. This is nothing new. Establishing a defense posture with limited resources has always involved accepting some risk.

Unless the Defense Department can make a better case for the BUR defense program, it may be prudent to adopt something analogous to the one-MRC "plus" posture, while also reviewing U.S. forward presence requirements. This approach offers several advantages. First, it would bring the U.S. force structure more in line with the resources projected to be available for defense. Second, it would free some resources for addressing the greatest challenges to U.S. security, and the most likely. Third, it would provide the modern, capable, and ready force the president pledged to maintain, a force that is able to address the principal near-term threat to U.S. security in this period of relative safety. Fourth, it would give DoD greater flexibility in promoting operational and organizational innovation, experimentation, and adaptation. This will be necessary if the new capabilities emerging from the military

revolution are to be developed in an optimal and fiscally responsible manner to reflect the challenges and opportunities of a new era.

PREPARED STATEMENT OF DR. IRV MESTMAN, ARBITRATOR-MEDIATOR

SUGGESTION

Etiology

Predicated on my 20 plus years of U.S. Government service, I have concluded that hundreds of billions of dollars are wasted because of the budget process. An agency head is encouraged to waste funds at the end of a fiscal year in order to obtain the same level of funding for the subsequent fiscal year. This methodology is applied by all managers.

Solution

Managers should be mandated to operate efficiently and effectively *and* save between 10%-20% each year to be retained in their position. In the event performance and savings can be documented, a generous bonus should be given to that manager.

Prognosis

Private industry utilizes the foregoing concept on a regular and consistent basis. I'm sure some would object on the grounds that programs would not be as effective. On the contrary, managers (by necessity) would dedicate themselves to get "more for their bucks." I would gladly work on a 1% commission on just the savings I could produce that would inure to the U.S. Government. (Given the authority to do so). I defy anyone to refute the potential results outlined herein.

I trust the House Budget Committee and President will meticulously review my suggestion. It is presented in the spirit of an economically healthier America. It is my opinion that America's economy is in "intensive care" partially due to the budgetary system we are currently following.

PREPARED STATEMENT OF JONATHAN L. TAYLOR, PRINCIPAL CHIEF, EASTERN BAND OF CHEROKEE INDIANS

Mr. Chairman and Distinguished Members of the Budget Committee of the United States House of Representatives, I am Jonathan L. Taylor, Principal Chief of the Eastern Band of Cherokee Indians. Thank you for allowing me the opportunity to provide written testimony. Our Tribe consist of 10,700 members and our reservation contains 56,000 acres. We are located in the western part of the State of North Carolina, directly adjacent to the Great Smoky Mountain National Park.

The Eastern Band of Cherokee Indians of North Carolina is pleased to present this statement to the Budget Committee of the United States House of Representatives. While we are not officially authorized to speak on behalf of any Indian tribe but our own, please be assured that the concerns expressed herein are felt by over 500 federally-recognized Indian tribes and Alaska Native villages.

We would like to bring to the Committee's attention the severe underfunding of the Bureau of Indian Affairs (BIA) and the Indian Health Service (IHS). While we recognize that your Committee must deal with endless requests for higher funding ceilings (budget functions), we must ask your serious consideration of the present situation in Indian Country. The purpose of this testimony is to focus attention on the fact that Congress and the federal government have both a moral and a clear legal responsibility to adequately fund, among other things, health and education programs on Indian reservations. These rights have been guaranteed through treaties that the federal government has signed with tribal governments. In addition to treaties, there are Executive Orders, Acts of Congress and various judicial decisions that form the foundation of the United States trust responsibility for Indian tribes. There is no group of people other than tribes with whom the United States has a fiduciary trust responsibility.

While we believe progress in principle has been made in federal Indian policy over the last few decades, funding has been so terribly insufficient as to render these more responsible policies debatable. Indian people still rank at the lowest on almost every social indicator despite numerous bills enacted by the Congress authorizing the operation of more progressive programs for our people. There are many reasons for this but the fact that the Congress has funded Indian tribes at stagnant levels prohibits social advancement in dealing with these endless problems. The Senate Indian Affairs Committee has in past years, referred to Congressional Research Service statistics that illustrate how—in "constant dollars" (allowing for inflation)—fed-



eral funding for tribal programs has seriously *declined* over the last two decades. This includes programs you may be more familiar with such as the Indian Health Services (IHS/HHS) and the Bureau of Indian Affairs (DOI) as well as programs such as Indian housing under the Department of Housing and Urban Development. While funding for Indian programs may appear to go up slightly over the years when viewed in current dollars, the levels in constant dollars have seen significant and continual *decreases*. The funding levels are not even keeping place with inflation, not to mention a much larger service population. The comparisons prepared by CRS not only show the stagnant nature of constant dollar funding but when compared to other equivalent spending areas, tribal programs again lag far behind. It is also extremely important that you keep in mind the fact that tribal governments, unlike cities, counties and other municipalities, do not receive supplemental assistance from the states. Furthermore, tribal governments have very little opportunity to generate revenue through taxation as do other local governments.

One case in point is the Indian Health Service. All Americans should be shocked by the relevant health statistics on Indian reservations. In addition to the higher suicide, alcoholism, and accident rates, which are more well-known, Indian persons have much higher incidents of diabetes, tuberculosis, and often have unsafe water supplies. Getting a limb amputated due to diabetes is not an uncommon occurrence in Indian country; it is rarely heard of in the general populations. Reservations currently have shortages of doctors and other medical professionals and many lack facilities and equipment. There is an enormous discrepancy between the health care available to Indian persons living on reservations and that of the general public. The problem on most reservations is particularly acute in the area of "contract care" which is surgery and other practices that are beyond the scope of ability of local on-reservation clinics and that must therefore be contracted to off-reservation private facilities/doctors. This is the case, despite the fact that the Congress has continually recognized the federal trust responsibility for Indian health in various statutes, including the Indian Health Care Improvement Act and the Indian Health Amendments of 1992. Within the BIA's budget, the areas of law enforcement and judicial services seem to be examples of categories in which many tribes are severely underfunded.

Every year, a number of tribes appear before the House Interior Appropriations Subcommittee and present their highest priorities in funding needs. Almost without exception, these needs center on fish and wildlife protection, water supplies/rights, health facilities/services, law enforcement or fire safety, and other fundamental and essential needs. Unfortunately, over recent years, the House and Senate Interior Appropriations Subcommittees have become less and less able to respond to these priority needs. We understand that those Subcommittees have funding ceilings under which they must abide but the reality is, as we understand it, that the specific Indian programs are so small that they are not even specifically identified in your Committee's budget function categories but rather are included in larger functions such as Functions 450, 500 and 550. On behalf of tribal populations across the country, we would like to respectfully request that the House and Senate Budget Committees give serious consideration to raising the recommended budget function levels for key Indian programs and identifying those enhanced function levels by Indian program category or subcategory. We request you recommend that these increases go to the Interior Appropriations Subcommittees, with the understanding that those increases are to be used to carry our federal trust responsibilities to Indian tribes.

We fully realize there will not be a "quick fix" to the problem of federal funding for Indian programs. We realize that the federal government has a large budget deficit. *However, we do believe that the United States' responsibilities to Indian tribes should be one of the very highest priorities of Congress and the federal government.* Instead, certainly from a dollar perspective, it appears to have become an extremely low priority. We respectfully request that your Committee, over the long term, address the ability of the Appropriations Committees to adequately implement programs supporting federal trust responsibilities to tribes. We make this request out of sincere need and with strong legal and statutory backing. People love to pity or admire Indian people from a distance; less often do they actually work with us for constructive purposes. There is often acknowledgment and shaking of the head over the poverty and living conditions on Indian reservations, but rarely are the unfulfilled obligations to tribes addressed in substance.

We know bringing federal funding up to adequate levels for Indian programs will be a gradual process. However, even a gradual process would be progress, and we would sincerely appreciate the efforts of your Committee in this regard. Thank you very much for your attention.

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